THE CHURCHILL CORPORATION

ANNUAL REPORT 2003

CORPORATE PROFILE

The Churchill Corporation provides services to the industrial construction, industrial maintenance and building construction markets through operating subsidiaries:

- industrial electrical, instrumentation and power-line construction and maintenance services (Laird Electric)
- industrial insulation, maintenance and related services (Fuller Austin Insulation and Northern Industrial Insulation)
- heavy-industrial general contracting, fabrication and maintenance services (Triton Projects)
- building construction services (Stuart Olson Construction)

Churchill is based in Edmonton, Alberta and active throughout western Canada, northwestern Ontario and the Northwest Territories.

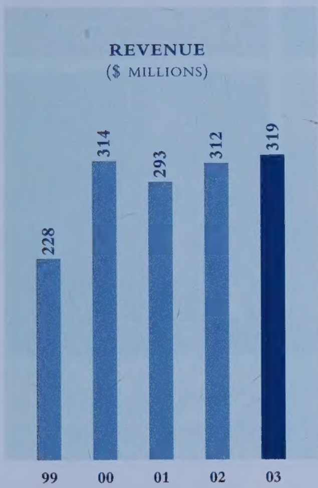
Churchill shares trade on the Toronto Stock Exchange under the symbol CUQ.

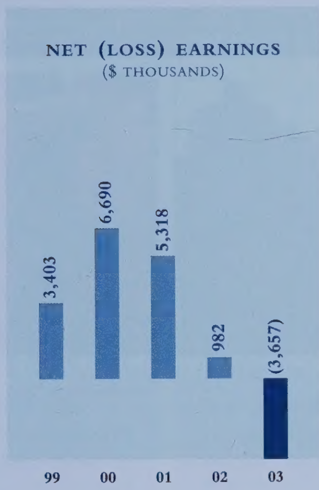
Churchill's mission is to maximize client value in the construction, maintenance and industrial service businesses by building relationships with our clients to profitably deliver services that exceed their expectations. Churchill's strategic vision is to build a highly profitable and sustainable construction, maintenance and industrial services business.

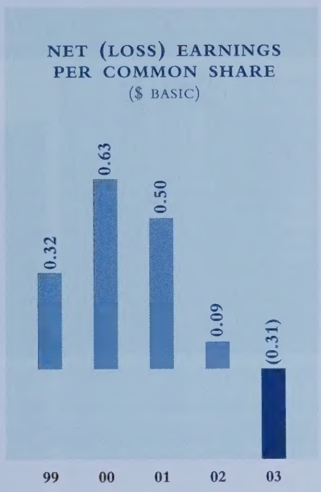
CONTENTS

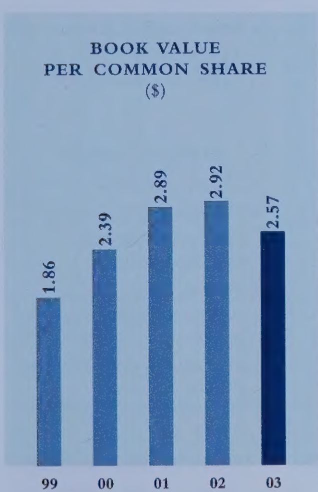
cover *background* **Stuart Olson: Dunsmuir House** - Vancouver, BC - $14 million
cover *top centre* **Triton: Ethane Recovery project** - Empress, AB
cover *bottom left* **Laird: Installation of heat tracing**
cover *bottom right* **Northern Industrial: Insulation of transition nozzles**

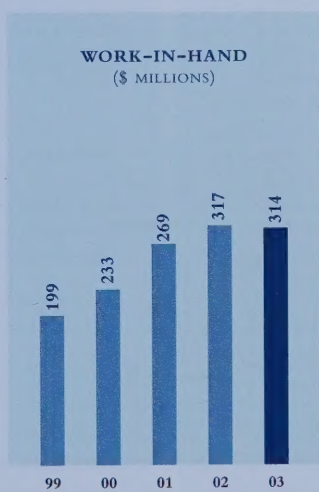
FINANCIAL HIGHLIGHTS

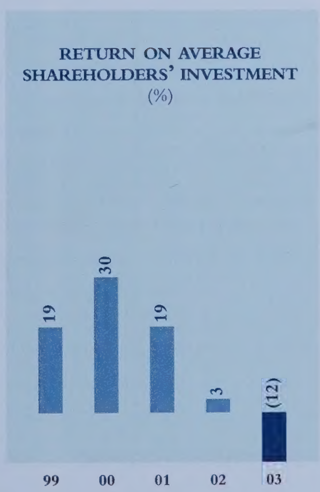












CHURCHILL AT A GLANCE

INDUSTRIAL CONSTRUCTION AND MAINTENANCE

LAIRD ELECTRIC

BUSINESS

- *Industrial and commercial electrical, instrumentation and power-line construction and maintenance*
- *2003 revenue of $26 million (8% of Churchill revenue)*

MARKET FOCUS

- *Resource and industrial sectors: oil sands, other oil and gas, petrochemical, power generation*

COMPETITIVE POSITION

- *One of the largest electrical contractors in the active Fort McMurray oil sands sector; successfully expanded operations into the Edmonton area*
- *Provides a wider range of complementary services than competitors*
- *Generates a significant portion of revenue from maintenance services*
- *Established in 1962*

FULLER AUSTIN AND NORTHERN INDUSTRIAL

BUSINESS

- *Thermal insulation, fireproofing, fire stopping, siding, asbestos abatement and plant maintenance*
- *2003 revenue of $64 million (20% of Churchill revenue)*

MARKET FOCUS

- *Resource and industrial sectors: oil and gas, petrochemical, forest products, pipelines, utilities, mining*

COMPETITIVE POSITION

- *One of the largest industrial insulation contractors in Canada*
- *Offices in Edmonton, Calgary, Bonnyville and Fort McMurray, Alberta, Regina, Saskatchewan and Thunder Bay, Ontario*
- *Provides a wider range of complementary services than competitors*
- *Established in 1961*

TRITON PROJECTS

BUSINESS

- *Heavy-industrial general contracting, fabrication and maintenance*
- *2003 revenue of $39 million (12% of Churchill revenue)*

MARKET FOCUS

- *Resource and industrial sectors: oil and gas, petrochemical, power, mining, forest products*

COMPETITIVE POSITION

- *One of the largest open-shop heavy-industrial general contractors in western Canada*
- *Offices in Edmonton, Calgary, Bonnyville and Fort McMurray, Alberta*
- *Strong position in natural gas and heavy oil sectors – a major growth market over the next five years*
- *Positioning for modular fabrication capability and capacity*
- *Established in 1953*

BUILDING CONSTRUCTION

STUART OLSON

BUSINESS

- *Building construction: construction management, design-build and general contracting*
- *2003 revenue of $193 million (60% of Churchill revenue)*

MARKET FOCUS

- *Private and public sectors*
- *Institutional, commercial and light-industrial building markets*
- *Particular expertise in healthcare, high technology, hotels, retail, food processing and distribution, recreational and educational facilities*

COMPETITIVE POSITION

- *One of the three largest building contractors in western Canada*
- *Major offices in Calgary and Edmonton, Alberta, and Vancouver, British Columbia; active throughout western Canada and the Northwest Territories*
- *An industry leader in construction management and design-build*
- *Experience and financial strength to do large projects*
- *Established in 1939*

REPORT TO SHAREHOLDERS

2003 was a disappointing year for Churchill in terms of its financial performance. The Corporation was hit by a lag in industrial construction, delays in building construction projects, as well as company-specific operating problems. In spite of these factors, there were many positive achievements during the year. Your Corporation believes that 2004 and beyond will provide excellent opportunities in the traditional commercial and industrial construction markets, as well as the growing market in industrial maintenance.

CONTRIBUTING FACTORS TO A POOR 2003

Building Construction Market

The building construction market in western Canada suffered from project delays throughout much of the year. Stuart Olson did not avoid this problem; although the company was successful in securing a large number of new projects and had significant carryover from 2002, many projects were delayed. In keeping with its planned expansion, Stuart Olson had invested in people and systems in anticipation of substantially increased activity. In 2003 Stuart Olson was unable to utilize this increased capacity; in fact, slippage in budgeted revenue approached $100 million. Notwithstanding these setbacks, Stuart Olson faces 2004 with a large backlog of work, an increased capacity to perform and the belief that many of the factors that impeded performance last year have now been mitigated.

Industrial Market

The industrial construction market, more particularly the oil and gas market in Alberta, also faced slowdowns. The uncertain impact of the Kyoto Accord and the substantial cost overruns experienced on large oil sands and heavy oil projects caused companies to pause to reassess the viability of new projects. Many companies revised their delivery strategies in an attempt to achieve greater cost certainty. This process affected all of Churchill's industrial construction businesses, most of all Triton.

Triton Projects

Triton incurred a significant loss in 2002, the first major loss in the company's 50 year history. Although the losses continued in 2003 (approximately $2.9 million before tax), the results improved from quarter to quarter. Bruce Rintoul, Vice President of Churchill's Industrial Division, assumed the additional role as President of Triton and responsibility for rationalizing the business. The subsequent restructuring resulted in large severance and early retirement costs of approximately $1.0 million in the second quarter of 2003. Triton has now added experienced people for its industrial markets and remains a key platform in Churchill's strategy.

JTB Canadian Pork

In February 2002, Stuart Olson suspended work on a pork processing plant for JTB, pending client financing to complete the project. A bad debt allowance had been established in Churchill's 2001 financial statements. A receiver-manager of JTB was appointed in September 2002. At the end of the second quarter of 2003 Churchill took an additional bad debt allowance of $3.0 million. In the third quarter, however, a sale of the JTB assets occurred and Churchill was able to recover the $3.0 million. The JTB job has been a significant distraction for management and consumed significant internal resources.

Fuller Austin: Storage tank insulation

ACHIEVEMENTS IN 2003

Steady Improvement

In spite of an overall loss for the year, throughout 2003 Churchill achieved steady improvement in its quarterly financial results. The quarterly revenue increased from $62.2 million in Q1, to $77.2 million in Q2, to $84.2 million in Q3, and to $95.6 million in Q4. Earnings before tax improved from a loss of $2.9 million in Q1, to approximately a $1.0 million loss in each of Q2 and Q3 (normalizing for the JTB bad debt loss and recovery), to earnings of $0.3 million in Q4. These trends indicate that the Corporation is moving in the right direction.

Laird Electric Acquisition

In February of 2003, Churchill acquired Laird Electric. Laird provides electrical, instrumentation and power-line construction and maintenance services. Laird has been in business for 42 years and has strong relationships with clients in the Fort McMurray area. During the year Laird opened a new office in Edmonton, from which the company was able to secure several new contracts. Laird made a significant contribution to Churchill's financial results in 2003 and the company expects significant growth in 2004 and beyond.

Industrial Insulation

Churchill's industrial insulation businesses had a very successful year. Insulation is usually installed near the end of a project and thus the insulation companies were busy as several oil and gas projects were drawing to a close. Fuller Austin had a slow start but by the third quarter was working at a near record pace on two oil sands projects in Northern Alberta and a refinery project in Saskatchewan. Northern Industrial was busy throughout the year on an oil sands project for another client in the Fort McMurray area, as well as an expanding maintenance market. Lakehead Insulation, a company Churchill acquired in 2002, completed substantial projects for a pulp mill and a major oil refinery in Ontario. The latter project was the first major insulation project Churchill companies have secured in the southern Ontario industrial market.

Triton Projects

During the past year, Triton has been able to add several experienced large-project managers to its roster. The company has also expanded its office in Fort McMurray, and has positioned itself well for the upcoming major capital and maintenance expenditures planned for this region. As well, the company embarked on a new initiative in the boiler maintenance field with several successful boiler contracts that extend into 2004.

Large industrial projects are increasingly being constructed utilizing the off-site fabrication of modules that are then transported to the jobsite and assembled. Triton has completed smaller projects of this type through its fabrication shop in Bonnyville, Alberta. In late 2003, Churchill initiated the construction of a major modular fabrication facility near Edmonton. It is expected to be in operation by mid 2004 and provide Churchill's companies with a flagship facility for industrial projects.

Bundling of Services

The activity levels of Churchill's industrial companies are providing increased opportunities to offer bundled services. Fuller Austin and Laird are working together on projects that include heat tracing and insulation. Triton and Northern Industrial work together on projects that include piping, insulation and siding. Stuart Olson partners with Triton on the building and civil works for industrial projects. Churchill's clients are able to mix-and-match companies to obtain a package that meets their specific needs.

Triton: Module fabrication for the heavy oil sector

Laird: Instrument installation to the oil sands market

Strong Backlog at Stuart Olson

A result of the project delays in 2003 is that Stuart Olson has one of the largest year-end backlogs, $263.5 million, in the company's history. Of this, $216.3 million is expected to be completed in 2004 and the balance in 2005. Many of Stuart Olson's projects are large and therefore work obtained in one fiscal year might be executed in the next. Stuart Olson is thus expecting both higher revenue and improved profitability in 2004. Restructuring of the Edmonton branch in 2003 has already resulted in improvements in revenue, profit margins and backlogs.

British Columbia

The building construction market in British Columbia has been slow for a number of years. In 2003 Stuart Olson's BC branch secured a number of new larger projects and several will carry forward into the 2004 construction year. The 2010 Winter Olympics are expected to trigger new construction opportunities related to the facilities themselves and associated work.

Stuart Olson: Alberta Hospital Ponoka Redevelopment - $85 million hospital complex

Stuart Olson: Biotechnology Research building at the University of British Columbia, $13 million

STRATEGY

Churchill's goal is to build a highly profitable and sustainable construction, maintenance and industrial services company. Long-term revenue growth is an important part of Churchill's strategy; however, the current focus is on a return to profitability, followed by sustainable growth in earnings.

Key elements of Churchill's current focus include:

- Improving the operational performance of Churchill companies
- Emphasizing relationship-based methods of project delivery
- Increasing the diversity of industries, clients and geographic markets served by Churchill and the services provided
- Enhancing Churchill's position in the large project markets
- Increasing the base of recurring revenue through industrial maintenance activities

Stuart Olson: Modifications to Commonwealth Stadium for the Molson Canadian Heritage Classic Hockey game in Edmonton, AB

IMPLEMENTATION OF STRATEGY

During 2003 Churchill implemented its strategic plan in several areas:

- The Churchill companies developed a corporate revitalization program focused on their relationships with clients
- Churchill companies implemented improvements to systems and processes for enhanced project execution
- Triton and Northern Industrial opened new offices or expanded existing offices in Fort McMurray
- Lakehead successfully completed a project in the southern Ontario market
- Churchill commenced construction on a new modular yard and fabrication shop
- Churchill acquired Laird Electric of Fort McMurray
- Laird subsequently opened a new office in Edmonton
- Stuart Olson successfully executed several large projects including the $85 million Alberta Hospital Ponoka and the $68 million Red Deer Hospital
- Churchill increased its level of recurring revenue through industrial maintenance work to approximately $30.0 million
- Triton executed several contracts in industrial boiler maintenance work

MARKET ENVIRONMENT

Churchill's markets are expected to improve in 2004 and by mid-year many of the large industrial projects will be into construction. This will not only provide direct construction opportunities but also spin-off improvements in the general construction market. Alberta would appear to be one of the best construction markets in North America over the next decade as the oil sands and heavy oil mega projects move into the construction phase.

Independent forecasts by Alberta Economic Development have identified $64 billion of major projects planned for the next three years in the oil sands, oil and gas and power sectors of the industrial market. Of this, more than $40 billion is planned for the Fort McMurray region. Churchill's companies are continuing to build their presence in the Fort McMurray area as a key part of the Churchill strategy.

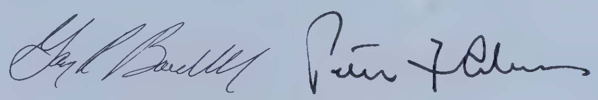
In addition to the compelling industrial market, the institutional market in Alberta is expected to grow dramatically as public sector investment in infrastructure increases. The Alberta Government has created an infrastructure capital fund and is moving towards a three to five year planning cycle. Both initiatives are expected to provide stability to that segment of the construction industry. Stuart Olson should benefit from this as a major, experienced builder of institutional projects.

The British Columbia market is expected to improve as planning for the 2010 Winter Olympics commences and the provincial government's commitment to clear up the backlog of infrastructure shortfall starts to materialize into construction projects. As well, the BC government is expected to stimulate the oil and gas sector of their resource industry.

The Churchill Corporation completed 2003 with a near record level of work-in-hand of $313.7 million. While Churchill expects the first part of 2004 to be a challenge, by mid-year both improved market conditions and performance on the large backlog of work should result in a noticeable improvement in financial results.

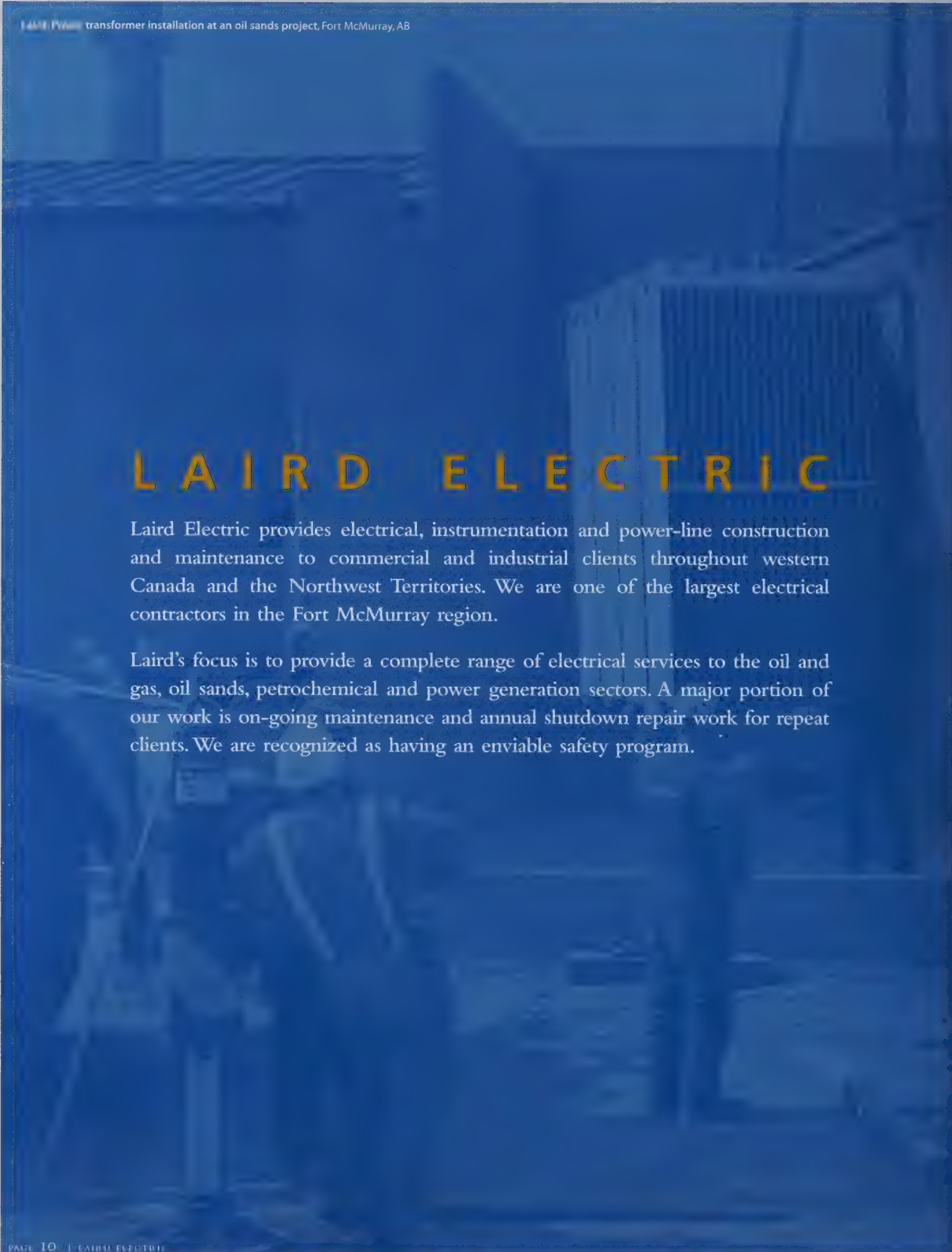
Churchill is well positioned to take advantage of the improved market conditions expected this year. The restructuring that occurred in 2003 will better enable the Corporation to achieve its corporate objectives. Churchill will focus on increasing shareholder value by growing a sustainable, profitable business through the delivery of outstanding services and value to our clients. On behalf of the Board of Directors, we would like to thank Churchill's employees, clients and shareholders for their continued support.

March 23, 2004



Gary R. Bardell
President and
Chief Executive Officer

Peter F. Adams
Chairman



[illegible] transformer installation at an oil sands project, Fort McMurray, AB

LAIRD ELECTRIC

Laird Electric provides electrical, instrumentation and power-line construction and maintenance to commercial and industrial clients throughout western Canada and the Northwest Territories. We are one of the largest electrical contractors in the Fort McMurray region.

Laird's focus is to provide a complete range of electrical services to the oil and gas, oil sands, petrochemical and power generation sectors. A major portion of our work is on-going maintenance and annual shutdown repair work for repeat clients. We are recognized as having an enviable safety program.

Laird: Assembly of disconnect switches at a generating station, Warburg, AB

Laird: Programming a motor starter at an oil sands project, Fort McMurray, AB

Laird: Erecting a transmission tower at a power generating station near Edmonton, AB

Laird Electric was acquired by Churchill in February 2003. We employ 8 full-time salaried staff plus field crews of 85 to 500 people. Laird has been in business in Fort McMurray for 42 years, and is recognized as one of the largest and most complete service electrical companies in the major industrial market that exists in the region. We have built long-standing relationships with clients such as Suncor Energy, Syncrude Canada, Williams Energy and TransAlta Utilities.

Laird had a profitable year in 2003 on revenues of $25.6 million from the date of acquisition. Our expectations were for somewhat higher revenues, however, the general delays in the commencement of the next wave of large oil sands related projects in the Fort McMurray area, resulted in lower capital construction projects than forecasted. Maintenance work still reached expected levels, contributing to a good financial year.

We opened a new office in Edmonton during the second quarter of the year. This proved to be a very successful endeavor, as we secured major contracts with Epcor Energy on their Genesee Project, and KBR Engineering in their modular yard working on oil sands projects. We foresee significant growth opportunities as much of the work for the northern Alberta heavy oil mega projects will be pre-fabricated in the Edmonton region, and several upgrader refineries will be built or expanded in the region.

Laird is an excellent addition to the Churchill industrial group of companies and expands our service offerings to our clients. The integration of the company is progressing well and we are already benefiting from the bundling of services and other synergies with our sister companies.

Fuller Austin: Precipitator insulation and cladding at a power station, Estevan, SK

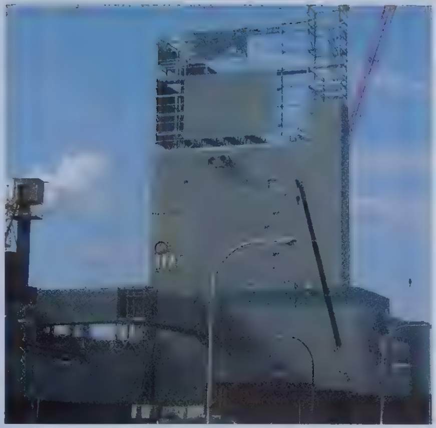
FULLER AUSTIN AND NORTHERN INDUSTRIAL

Fuller Austin and Northern Industrial serve clients primarily in the oil and gas, petrochemical, utilities, forest products, power and mining sectors. Fuller Austin serves the building-trade union market while Northern Industrial serves the open-shop market. These independent operations enable us to participate in all sectors of the market.

Fuller Austin and Northern Industrial provide an integrated range of complementary services, including insulation, siding, fireproofing, sheet metal contracting, fire stopping, asbestos abatement and plant maintenance. We provide a broader range of services than our competitors, enabling us to deliver a single-source solution to our clients.

Fuller Austin: Mechanical piping insulation at a refinery project, Regina, SK

Northern Industrial: Asbestos removal



Lakehead Insulation: Roofing and cladding, Dryden, ON

We are one of the largest industrial insulation and related services contractors in Canada. We operate primarily in western Canada and northwestern Ontario from offices in Edmonton, Calgary, Fort McMurray, Bonnyville, Regina and Thunder Bay. Fuller Austin and Northern Industrial have both established offices in Fort McMurray, enabling us to participate more actively in the large oil sands market. The acquisition of Lakehead Insulation in Thunder Bay in early 2002 extended Fuller Austin's geographic market to serve the forest products industry in northwestern Ontario.

Fuller Austin, Northern Industrial and Lakehead employ 44 full-time salaried staff plus field crews of 300 to 1,200 people. Fuller Austin has been in business for more than 40 years, Northern Industrial for 16 years and Lakehead for more than 50 years. Each company has built long-term client relationships and an excellent reputation for reliability, efficiency and safety.

All of our insulation companies had an excellent year in 2003. Fuller Austin was very active in Saskatchewan on a large refinery project and in Alberta on two of the oil sands projects near Fort McMurray. Although the year got off to a slow start due to project delays, by the last half of the year, work was progressing at near record levels. Our Lakehead division of Fuller Austin was busy on two substantial contracts for a Dryden, Ontario pulp mill and on a refinery project for a major, international oil company in Nanticoke, near Hamilton, Ontario. The local knowledge of Lakehead, combined with Fuller Austin's capacity and expertise, has proven to be very successful and we see an opportunity to follow up on our success in Nanticoke to expand into the large southern Ontario market. Northern Industrial had another good year in 2003 and was able to make further inroads into the Fort McMurray market, with a major contract on an oil sands project. As well, Northern increased their percentage of maintenance work in keeping with our corporate strategy.

Overall, our insulation business increased revenue by 44.2% to $63.9 million in 2003. The business is benefiting from opportunities to bundle services with our other industrial companies, particularly Laird Electric and to provide a more complete service offering to our clients. The market outlook for our insulation business remains positive, although not as strong as in 2003, due primarily to where we are in the industrial construction cycle in 2004.

Triton Projects: Module fabrication for SAGD plant, Anzac, AB

TRITON PROJECTS

Triton Projects provides heavy-industrial general contracting, fabrication and maintenance services to resource and industrial clients throughout western Canada. We are one of the largest open-shop mechanical contractors in our region. We serve clients primarily in the oil and gas, petrochemical, power generation, mining and forest products sectors.

TRITON PROJECTS PROVIDES A FULL RANGE OF COMPLEMENTARY SERVICES, INCLUDING:

- Plant-site preparation
- Installation and erection of structural steel and piping
- Equipment setting and assembly
- Fabrication and installation of process equipment modules
- Small diameter pipeline construction
- Building erection, electrical, instrumentation, painting and insulation
- Industrial maintenance (including on-stream, shutdowns and turnarounds)
- Estimating, planning and cost control

Triton has significant experience in dismantling and relocation of existing facilities, well-site abandonment and restoration, and in new construction.

Triton Projects: Construction of new pumping station and storage terminal, Kirby Lake, AB

Installation of a new heat exchanger, Paradise Hills, SK

Installation of large diameter penstock pipe, Revelstoke, BC

Triton is based in Edmonton, with offices in Fort McMurray, Bonnyville and Calgary. Our recently expanded office in Fort McMurray positions us to participate more actively in the oil sands market. The acquisition of H&H Oilfield Services in 2000, provided Triton a base of recurring maintenance revenue to clients in the expanding heavy oil sector in the Bonnyville region. Triton employs 44 full-time salaried staff plus more than 200 people in field operations. Triton has been in business for 50 years, building long-term relationships with clients and subcontractors. We have built a superior reputation for consistently delivering projects on schedule and on budget. Triton recently achieved a safety milestone by completing 1,500,000 man-hours of work without incurring any lost time accidents.

Triton struggled financially in 2003 as its revenue was at a relatively low level of $38.7 million due to slow market conditions. The company incurred its second financial loss in as many years, due to this low revenue, as well as tight margins. We also incurred significant restructuring costs in the second quarter. This restructuring that is now essentially complete, positions us well for the upturn in new construction activity that is expected by mid

2004. We also expanded the maintenance portion of the business and added a boiler maintenance and repair group. The new modular yard and fabrication shop that Churchill is building near Edmonton, will provide significant opportunities for the company to grow into the larger project market that is likely to last for the next five years. We added some very experienced operations and management people who will better enable the company to move in this new direction. Although Triton's market is expected to be slow in early 2004, we anticipate recovery and a busy market by midyear.

Biotechnology Research building at the University of British Columbia, Vancouver, BC - $13 million

STUART OLSON

Stuart Olson has been in business for 64 years. We have built a strong reputation and positive relationships with clients, subcontractors and suppliers. Stuart Olson is one of the three largest building contractors in western Canada.

Stuart Olson provides general contracting, construction management and design-build services to clients in the institutional, commercial and light-industrial market sectors. Projects generally entail the construction, expansion or renovation of a building. Stuart Olson has particular expertise in serving the building requirements of the food processing and distribution, multi-unit residential, hospitality, retail, biotechnology, recreational, healthcare, seniors' care and educational sectors.

Vertigo Mystery Theatre, Calgary, AB - $4 million

Red Deer Regional Hospital Redevelopment, Red Deer, AB - $68 million

Airdrie Recreation and Wellness Centre, Airdrie, AB - $10 million

Stuart Olson has been in business since 1939 and is recognized as one of the top ten building contractors in Canada and in the top three in market share in the western Canada market. We have major offices in Calgary, Edmonton and Vancouver and employ 138 full-time salaried staff plus 150 to 300 construction workers on job sites.

Stuart Olson incurred a financial loss in 2003 for the first time in 11 years. A major reason was that revenues were substantially lower than expected. We were successful in securing over $172.4 million of new contracts, net of contract revisions, but unfortunately many of these, plus a number of contracts carried over from 2002, were delayed in commencing construction for various reasons outside of our control. It now appears that virtually all of these projects are continuing, however, the revenue will occur in 2004 and beyond. The combination of our slow construction activity, together with staffing and fixed overheads sized for larger revenue, was a major contributor to a poor 2003. During the year Stuart Olson also closed down their small satellite office in Victoria due to a lack of project opportunities.

ALTERNATIVE METHODS OF PROJECT DELIVERY

Stuart Olson is a leader in alternative methods of project delivery, including construction management and design-build, which complement our general contracting capabilities. These methods entail working with clients and a design team early in the planning phase of a project to value-engineer the design and plan the construction process. This enhances client value through increased certainty of project completion on time and on budget, and can also provide a single source of responsibility. Stuart Olson has completed many private and public sector projects under these alternative methods, which now generate more than 80% of the company's revenue.

Stuart Olson continued to develop relationships with partners and is pursuing public sector projects in Alberta and British Columbia on a Public Private Partnership (P3) basis. These arrangements entail an alliance of design, construction, operations and financing partners, collaborating to deliver public sector infrastructure projects. These types of projects take longer to develop and although there were no successes in obtaining contracts during the year, we believe we made progress toward future opportunities.

Information technology and biotechnology building on the University of Victoria campus - $3 million

Selkirk Hotel, Replica of the classic 1920's hotel, Edmonton, AB - $3 million

Louis Brier Seniors Care Home, Vancouver, BC - $8 million

Canmore Civic Centre, Canmore, AB - $4 million

Calgary French and International School, Calgary, AB - $8 million

LARGE PROJECTS

Stuart Olson has successfully expanded our share of the large projects market during the last few years by leveraging our large project experience and Churchill's financial strength. Large projects have a longer duration, which enhances the predictability and sustainability of our revenue and earnings. During 2003, we continued with the successful execution of two of the company's largest projects, the $85 million Alberta Hospital Ponoka and the $68 million Red Deer Regional Hospital. Our successes in these large infrastructure projects should provide good market potential over the next few years as the provincial governments in both British Columbia and Alberta are expected to commit major funding to healthcare and educational infrastructure.

SUSTAINABLE BUILDINGS

Clients are becoming increasingly more mindful of the importance of designing and building environmentally conscious and energy effective buildings. An international standard has been established to certify projects that meet a high standard. This is called LEED (Leadership in Energy and Environmental Design). In 2003, Stuart Olson embarked on a training program to designate all of their key project staff as LEED Certified Professionals. To date we have secured five LEED Certified projects worth $41 million in contract value.

MARKET OUTLOOK

The client initiated delays in 2003, that resulted in low revenues, have resulted in Stuart Olson entering 2004 with one of the highest levels of work-in-hand in the company's history. This carryover of $263.5 million of contracts should result in a much better core of project work for 2004. As well, we expect a better market as public infrastructure spending is expected to increase, the economy in Alberta expands with increased investment in the major oil sands projects, and opportunities improve in British Columbia as a result of securing the 2010 Winter Olympics.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the operating performance and financial position of Churchill should be read in conjunction with the December 31, 2003 Consolidated Financial Statements and related notes on pages 30 to 44 and the Report to Shareholders on pages 3 to 9 of this Annual Report.

KEY OPERATING RESULTS

The following tables set forth certain unaudited historic operating results and financial information referred to in this management's discussion and analysis:

Years ended December 31

($ thousands, except for percentages and per share amounts)	2003	2003 Excluding Laird	2002
Contract Revenue	$ 319,192	$ 293,613	$ 311,663
Contract Income	20,015	16,223	20,639
Contract Income (%)	6.3%	5.5%	6.6%
(Loss) Earnings from Construction Operations	(4,776)	(5,949)	119
(Loss) Earnings Before Income Taxes	(4,594)		546
Net (Loss) Earnings	(3,657)		982
Net (Loss) Earnings per Common Share (Basic)	(0.31)		0.09
Net (Loss) Earnings per Common Share (Fully Diluted)	(0.31)		0.09
Working Capital	17,556		21,175
Working Capital Ratio	1.27		1.32
Capital Expenditures	2,411		4,154
Shareholders' Equity	30,481		31,681
Book Value per Common Share	2.57		2.92
Work-in-Hand	313,712		317,266

Quarterly Financial Information

	2003				2002			
($ millions, except per share amounts)	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Contract Revenue	$ 62.2	$ 77.2	$ 84.2	$ 95.6	$ 67.1	$ 75.0	$ 85.0	$ 84.6
(Loss) Earnings before tax	(2.9)	(3.9)	1.9	0.3	0.7	1.3	(0.6)	(0.9)
Net (Loss) Earnings	(1.8)	(2.4)	1.0	(0.5)	0.4	0.8	(0.2)	Nil
Net (Loss) Earnings per Common Share:								
-Basic	(0.16)	(0.21)	0.09	(0.04)	0.04	0.07	(0.02)	Nil
-Fully Diluted	(0.16)	(0.21)	0.09	(0.04)	0.04	0.06	(0.02)	Nil

STRATEGIC VISION

Churchill's strategic vision is to build a highly profitable and sustainable construction, maintenance and industrial services business.

Churchill constructs buildings and provides industrial construction and maintenance services. In 2002 the Corporation operated through four business segments–

- Buildings – constructs commercial, institutional and light-industrial buildings
- Industrial General Contracting – provides heavy-industrial general contracting, fabrication and maintenance services
- Industrial Subcontracting – provides industrial insulation, maintenance and related services
- Corporate and Other – includes corporate costs not allocated directly to another business segment as well as any miscellaneous investments

In February 2003, Churchill acquired Laird Electric, necessitating the expansion to five segments. The fifth segment is–

- Industrial Electrical Contracting – provides industrial electrical, instrumentation and power-line construction and maintenance services

The Industrial Subcontracting segment was renamed Industrial Insulation Contracting for disclosure purposes commencing March 31, 2003, to better reflect the nature of their business.

Churchill provides strategic direction, operating advice, financing and infrastructure services to each of the business segments. Churchill's senior management is Gary Bardell, President and CEO; Al Stowkowy, President, Stuart Olson Construction; Bruce Rintoul, Vice President, Industrial, and Ian Morris, Vice President Finance and Chief Financial Officer. Each business segment has its own President and senior management team, and is designed to be self-supporting.

The roles of the parent company and the operating entities, and of the key people within these organizations, are highly dynamic. We are constantly reviewing and amending our business models and processes to address immediate client needs and in anticipation of changes in our markets.

Churchill has not performed well from a financial standpoint over the past two years. Notwithstanding the financial disappointments, we have made progressive steps and achieved some success. Our immediate objective is to return Churchill to profitability.

Once we have returned to the desired levels of profitability, we will be in a position to determine our best opportunities for growth. We will continue to assess both niche style acquisition opportunities and major strategic acquisitions, but only so long as this activity does not distract from our primary objective.

RESULTS OF OPERATIONS

The consolidated results of operations, cash flow and financial position of the Corporation for the year ended and as at December 31, 2003 are included on pages 30 to 44.

The Churchill Corporation acquired Laird Electric Inc. on February 7, 2003. The consolidated results for the year ended December 31, 2003 include the results of Laird Electric from the date of acquisition to December 31, 2003. The comparative results for the year ended December 31, 2002 do not include Laird. The key operating results summarized on page 19 have been tabulated to reflect the consolidated results including Laird, as well as disclosing revenue and contract income excluding Laird. The latter results are more directly comparable to the consolidated 2002 results.

In order to understand more clearly the operating results for The Churchill Corporation, the discussion within this Management's Discussion and Analysis will be focused on the business segment level.

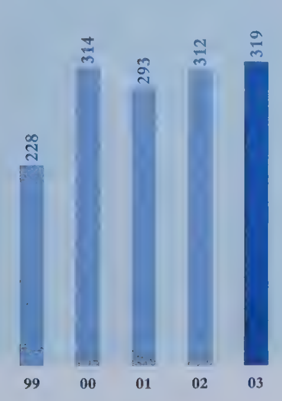
The quarterly financial information as at March 31, June 30, and September 30, 2003 has been presented and analyzed in our quarterly reports to shareholders. The Corporation does not produce a separate quarterly report for the fourth quarter. As shown in the Quarterly Financial Information on page 19, the activities for the three months ended December 31, 2003 resulted in revenues being up substantially, to $95.6 million from $84.2 million the previous quarter. This strong increase in revenue is indicative of a strengthening in the market with a lessening of the effects of project delays. The net earnings before tax for the three months ended December 31, 2003 were $ 0.3 million, indicating that Churchill's operations are profitable when not negatively impacted by restructuring charges, bad debt provisions, and low levels of work.

For the year ended December 31, 2003, The Churchill Corporation had a net loss of $3.7 million on revenues of $319.2 million, or a net loss per share of $0.31 for the year. For the year ended December 31, 2002, The Churchill Corporation had net earnings of $1.0 million on revenues of $311.7 million, or earnings per share of $0.09.

Year over year revenues for the consolidated group increased $7.5 million. As discussed, the 2003 results include Laird from its date of acquisition; without Laird's $25.6 million of revenue, 2003 revenues for the comparable group as existed in 2002 would have been lower than 2002 by $18.1 million. Industrial Insulation Contracting had an excellent year in 2003, with revenues increasing $19.6 million, while Triton Projects experienced a revenue decline in 2003 of $5.8 million and Stuart Olson's revenue declined $31.1 million.

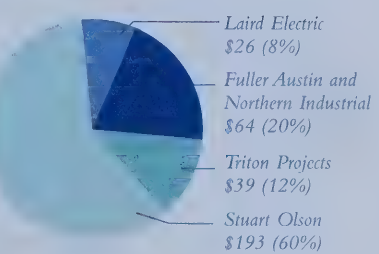
The net loss of $3.7 million for the 2003 year is after reversal of future income tax amounts of $5.0 million and accrual of $4.0 million of current taxes payable. The movement between current and future income tax is due to tax loss carryforwards for 2004 and reductions of certain tax reserves in 2003.

REVENUE
($ MILLIONS)



REVENUE MIX
($ MILLIONS)

2002



2003

BUILDINGS

For the year ended December 31, 2003, Stuart Olson had revenues of $192.6 million, compared to $223.7 million in the prior year.

Stuart Olson entered the year with a backlog of $283.7 million. During 2003 Stuart Olson secured a further $172.4 million of contracts, net of contract revisions, and executed and took into revenue $192.6 million. They ended 2003 with a backlog of $263.5 million.

Contract income declined from $10.8 million in 2002 to $7.0 million in 2003, and also declined as a percentage, from 4.8% of revenue to 3.6%. Project backlog entering 2003 had been bid during 2002, when there was a shortage of work. This resulted in tighter bid margins as the company attempted to secure work to offset infrastructure costs. Stuart Olson management is focused on improving their overall margins in 2004.

INDUSTRIAL GENERAL CONTRACTING

Triton Projects experienced another year of financial losses. The traditional markets for Triton continued to reduce. Repositioning the company to successfully penetrate new markets has taken longer than anticipated. Triton's revenues for the year ended December 31, 2003 were $38.7 million, down 13.0% from $44.5 million for the year ended December 31, 2002, which in turn was down 21.2% from the prior year.

Operating margins were approximately 6.7% in 2003 and 8.9% in 2002. This is below historical long-term margin performance for Triton Projects, and is a direct result of heavy-industrial contracting companies, including Triton, being more aggressive in their bidding margins. The operating margin produced from the lower level of revenues was not sufficient to recover all of the general and administrative expenses for the year. Triton recorded a loss before income taxes of $2.9 million for the year ended December 31, 2003, as compared to a loss before income taxes of $1.1 million for the year ended December 31, 2002.

As reported in our June 30, 2003 Second Quarter Report, Triton took a $1.0 million charge in the first half of the year for severances and early retirements as their management reduced overheads and repositioned operations to match market conditions. As the year progressed and new potential opportunities appeared, it became necessary to add infrastructure to support the development of these new opportunities.

Triton began 2003 with $10.6 million of work-in-hand. All of this was executed and brought into revenue for 2003. In addition, they secured $40.1 million of new work during the year, and executed $28.0 million of that, leaving $12.1 million to be executed in 2004. At the end of 2003 Triton Projects renewed its maintenance contracts, which added an additional $6.5 million to the backlog of work-in-hand at December 31, 2003.

Triton had several initiatives in 2003 that are expected to produce improved results in 2004 and beyond. They developed a division to provide boiler repair and maintenance services. This led to several smaller contracts in 2003, has introduced the company to a new set of clients, and is expected to result in an increasing volume of work in 2004.

A significant portion of the capital projects in enhanced oil recovery and oil sands are expected to be constructed using a modular methodology. With this approach the component parts are constructed within the controlled environment of a fabrication facility and yard, then moved to the site and installed. Churchill has started construction of a modular fabrication facility. Triton Projects is expected to be the largest beneficiary of work, both within this facility, and the related field installation work.

INDUSTRIAL INSULATION CONTRACTING

Industrial Insulation Contracting operates under three business units – Fuller Austin, Northern Industrial, and Lakehead Insulation, all providing insulation related contracting services for capital projects and maintenance work. Lakehead is a subsidiary of Fuller Austin.

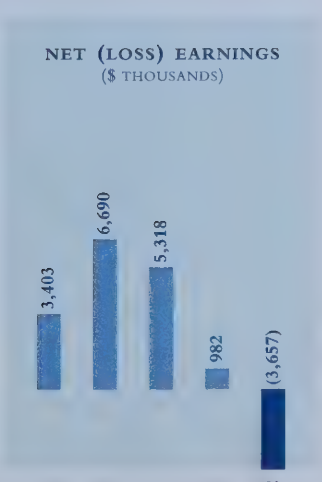
The Industrial Insulation Contracting segment performed well in 2003. Revenues for the year ended December 31, 2003 increased by 44.2% over 2002, to $63.9 million from $44.3 million. In Ontario, significant revenues were generated from two large projects for pulp mills in Lakehead's traditional geographic market, as well as from one large project in southern Ontario. This project was Lakehead's first in the highly industrialized southern Ontario market. They are now assessing whether to increase their marketing of the company's services in that area. In Saskatchewan, Fuller Austin provided insulation contracting services on a major turnaround project at a refinery in Regina. In Alberta, the insulation companies participated in projects in modular fabrication yards in the Edmonton area, in new project work in the Fort McMurray area, and in a project expansion in the heavy oil sands area near Bonnyville.

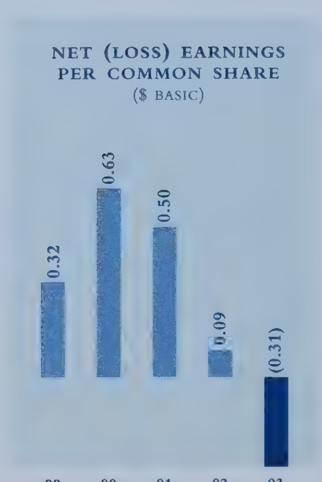
Several of these larger projects incurred lower operating margins than their traditional work. Consequently, margins for the year ended December 31, 2003 were 10.6%, compared to 13.2% attained in 2002.

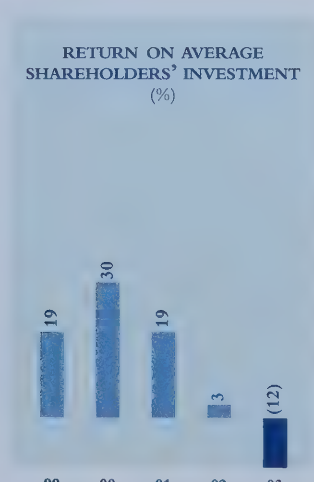
Earnings before income taxes for the year ended December 31, 2003 were $2.5 million, as compared to $1.6 million for the year ended December 31, 2002.

Industrial Insulation Contracting had a number of recurring maintenance contracts with major industrial clients that generated revenue in 2003 of approximately $5.0 million.

Industrial Insulation Contracting entered 2003 with an order backlog of $23.0 million. They secured $51.2 million of new contracts in 2003. They executed and took into revenue $63.9 million. They enter 2004 with an order backlog of $14.3 million, including $4.0 million of recurring maintenance contracts.







INDUSTRIAL ELECTRICAL CONTRACTING

Churchill acquired Laird Electric in February 2003. The December 31, 2003 financial statements for The Churchill Corporation include the results for Laird Electric from the date of acquisition to the end of the year.

Churchill acquired all of the issued and outstanding shares of Laird Electric for $10.7 million and all of the shareholders' loans for $5.4 million, for a total outlay of $16.1 million. The purchase price was paid by way of $13.9 million cash and the issuance from treasury of 826,412 Churchill Common Shares. In order to complete the transaction, Churchill secured $8.0 million of term financing.

The purchase price was allocated $6.3 million to net tangible assets, $1.5 million to a customer contract and certain employment contracts, and $8.3 million to goodwill. The assets acquired included $6.2 million of receivables, $0.4 million of inventory, $1.0 million of property and equipment, and $1.0 million of cash. The liabilities assumed included $1.7 million of trade and government obligations, and $0.3 million of financing related to the purchases of vehicles. The value assigned to intangible assets of $1.5 million consists of the present value assigned to a maintenance contract with Laird Electric's largest customer, which expires in the first quarter of 2004, and the value assigned to the employment contracts with the senior management of Laird Electric. These contracts include a claw back of the purchase price in the event the individuals do not remain with the company through the full three-year retention period. The $1.5 million is being amortized over its estimated life. At December 31, 2003 the unamortized value of these intangible assets was $0.8 million.

Laird Electric generated $25.6 million of revenue for the period from acquisition to December 31, 2003. Operating margins during that period were 14.8%. Earnings before income taxes for the period were $1.2 million. These results were within the range anticipated at the time of acquisition. Approximately 76% of Laird Electric's revenue in 2003 was derived from two customers.

Laird had a backlog of work of $24.2 million at the date of acquisition. They secured $25.2 million of new contracts to the end of 2003, and executed $25.6 million of work. They enter 2004 with an order backlog of $23.8 million.

During the year Laird Electric successfully expanded into the Edmonton region, obtaining work in a power generating facility and in several of the modular fabrication yards in the Edmonton area.

The integration of Laird Electric into the Industrial Group progressed well throughout 2003, and will continue into 2004. The primary successes included a continuation of contract awards, improvements in communications infrastructure, adjustment of accounting routines to meet public company requirements, and the successful opening of an office in Edmonton together with procurement of several new contracts in that market place.

CORPORATE AND OTHER

In 2003, $21.9 million of Indirect and Administrative expenses were incurred by the Churchill group of companies, compared to $19.3 million for the year ended December 31, 2002. The 2003 figure of $21.9 million includes $1.4 million incurred directly by Laird Electric. The 2002 Indirect and Administrative expenses did not include any amount incurred by Laird.

The increase of 6.2% in Indirect and Administrative expenses (excluding Laird), is due primarily to increases in insurance costs, computer infrastructure support costs, severances and salaries. Insurance cost increases were market driven; Churchill did not increase or enhance coverage year over year. Computer infrastructure costs increased as the Corporation enhanced its communication capabilities and increased security over its information. Severances and early retirements of $1.0 million have been discussed earlier in relation to the activities of Triton Projects. Severances paid by all other segments totaled $0.3 million.

In February 2003, the receiver-manager of JTB Canada Pork accepted a $5.5 million offer for the assets of JTB. Over the course of five months the potential purchaser paid in excess of $1.1 million in non-refundable deposits. However, by the middle of the year it became apparent that the potential purchaser had not been successful in raising the remaining funds, and their deal collapsed. There being no other purchasers expressing interest at that point, Churchill booked a bad debt allowance of $3.0 million as at June 30, 2003, writing the net receivable down to zero. After contemplating the alternatives, the receiver-manager began anew the process of seeking potential buyers but at a lower price. Shortly thereafter several purchasers expressed interest, and the receiver-manager negotiated and closed the sale of the assets for a price of $3.3 million. This allowed Churchill to reflect a net recovery of the $3.0 million bad debt allowance set up in the previous quarter.

Churchill's 41% interest in the Lafrentz Road Services business was deemed to be non-essential and was sold in early 2003. The distributed proceeds received on the sale were $1.6 million, resulting in the Corporation recording a small gain.

CASH FLOW, FINANCING, CAPITAL REQUIREMENTS, LIQUIDITY

For the year ended December 31, 2003, Churchill consumed $5.6 million of cash through its revenue generating activities. The Corporation generated $12.5 million of cash flow through reduction of working capital, related in part to the timing of collections and payments. This resulted in a net cash flow from operating activities of $6.9 million. For the year ended December 31, 2002, Churchill generated $4.0 million of cash through its revenue generating activities, however, increases in working capital consumed $3.3 million.

The most significant capital requirement and financing activity for 2003 related to the acquisition of Laird Electric. Churchill secured an additional $8.0 million of financing through its lending institution to complete the transaction. The loan is repayable in equal quarterly installments over five years, and bears interest at prime plus 1.25%, payable monthly. It can be repaid without penalty at any time under its floating rate structure. In addition, it may be converted into a fixed rate loan before May 31, 2004. The cash portion of the Laird Electric purchase price consisted of $8.5 million for shares and $5.4 million for shareholder loans less $1.0 million Laird cash acquired for a net of $12.9 million.The $12.9 million was paid from proceeds of the $8.0 million financing, and $4.9 million was paid out of existing cash reserves. The remaining portion of the purchase price was financed through the issuance of 826,412 Common Shares of Churchill valued at $2.2 million.

Churchill repaid $1.9 million of debt during the year ended December 31, 2003. Of these repayments, $1.2 million were the scheduled payments on the Laird Electric acquisition loan. The remainder consisted primarily of scheduled payments on dealer financing for vehicles.

Churchill acquired $2.4 million of property and equipment during the 2003 fiscal year, compared to $4.2 million in the year ended December 31, 2002.

Churchill began 2003 with $14.1 million in cash, of which $5.5 million was subject to certain deemed trust conditions. All of the operating, investing and financing activities throughout 2003 generated a small amount of additional cash. At December 31, 2003 Churchill had $14.6 million of cash, of which $4.4 million was subject to deemed trust conditions.

The scheduled debt repayments for 2004 are $1.9 million. The level of required replacement capital spending for Churchill is estimated to be in the range of $2.0 million a year. These requirements are expected to again be met through a combination of operating and financing activities. In addition, as discussed under the 2004 Outlook section of this Management's Discussion and Analysis, Churchill's Board of Directors has approved the construction of a modular fabrication shop and yard at an estimated cost of $7.4 million. Churchill expects to raise long-term debt for a significant portion of this requirement.

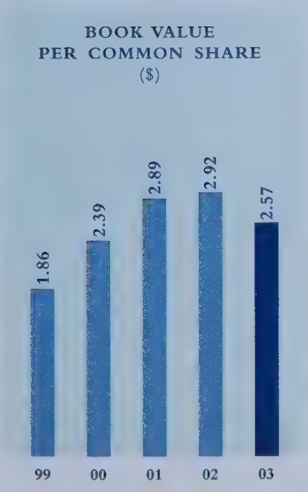
The Corporation is in compliance with its banking covenants as at December 31, 2003. It is in the early stages of arranging financing for the modular fabrication facility and in conjunction with this, it will be having discussions with its current lender to modify its existing covenants to take into account the effect of its additional borrowings and operations. Should the Corporation be in violation of its financial ratios as it goes forward, the lender would be in a position to demand repayment of any balances outstanding under its loan facilities. The Corporation monitors the financial ratios on a continuous basis.

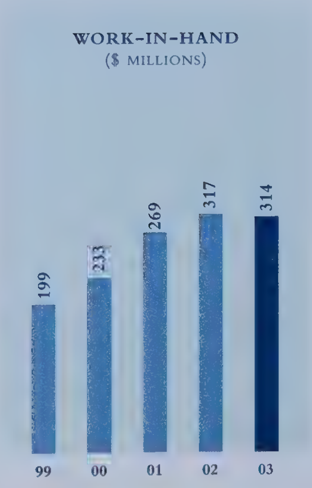
The Corporation has $30.5 million of equity, including $8.3 million of goodwill, against which it has $7.5 million of long-term debt. At December 31, 2003, working capital was $17.6 million. The Corporation has sufficient short-term and long-term liquidity to deal with its regular business in the normal course.

During the year the Corporation issued 826,412 Common Shares from treasury as part payment for Laird Electric at a price of $2.42 per share, and issued 192,000 Common Shares on the exercise of options by certain Directors and Officers at an average price of $1.44 per share. The Corporation purchased and cancelled 18,800 Common Shares during the year under Normal Course Issuer Bids at an average price of $2.29 per share. There were 11,863,652 Common Shares issued and outstanding at December 31, 2003.

The Corporation has an Employee Share Purchase Plan available to all full-time employees. At December 31, 2003 the Plan held 1,168,589 Churchill Common Shares for the employees. Under the Plan, shares are acquired in the open market.

The Corporation maintains a Share Option Plan for Directors and Officers, under which 1,046,334 options were outstanding as at December 31, 2003. In addition to the 192,000 options exercised during the year, there were 44,333 options cancelled, and 205,000 options issued. The options issued during the year were to members of senior management, issued at an exercise price of $2.95, vesting over two years and expiring at the end of four years. There were 361,666 options available for grant at December 31, 2003.





RISKS AND RISK MANAGEMENT

Churchill's 2002 Annual Report discussed how certain of the operating segments had increased their infrastructure in anticipation of higher revenue levels in 2003. In particular, both Stuart Olson and Triton had done so. Unfortunately, several factors caused governments and major exploration and production companies in western Canada to delay capital projects in 2003.

- Political unrest, war and terrorism in many parts of the world caused governments in western Canada to shift their focus, temporarily suspending capital spending while reassessing the impact of fluctuations in commodity prices on their cash flows.
- Companies with worldwide oil and gas assets also shifted their focus to assets most at risk, suspending other capital projects, some of which are in western Canada.
- Companies already active or contemplating activity in the Alberta oil sands region analyzed the most recent experiences on major projects in an attempt to understand the escalating project costs and reassess how to deliver their own projects in the future.

These delays had a direct impact on Churchill's 2003 revenues, as certain contracts already awarded to us were put on hold. Other projects not yet out for bid were delayed, meaning less work available to all construction contractors and making the marketplace more competitive. Those of our operating companies carrying additional infrastructure not only incurred that cost for a period of time but also had to bear the cost of downsizing those portions that they determined to be surplus to their needs during the year.

Our operations are centered in and primarily focused on western Canada. The majority of construction in western Canada, particularly the industrial construction activity we pursue, is either directly or indirectly connected to oil and gas. Oil and gas pricing and activity levels are directly impacted by worldwide events. While we can attempt to anticipate what direction oil and gas commodity prices might take, we mainly react to significant price movements as they happen. Significant downward movement in oil and gas prices can lead to project delays or cancellations.

The climate in western Canada can generate severe weather, which will slow down or delay construction for periods of time, impacting costs and delivery schedules.

Permitting, engineering and design that happen in advance of construction can lead to a delay. Stuart Olson participates in design-build projects where they take on the additional risk of design-related flaws or failures. In order for us to be awarded a project, we often are required to provide a surety bond for the contract; our ability to attain bonding is dependent upon our past performance, the strength of our balance sheet, and the quantity of our work-in-hand.

Once under construction, the project management team must be aware of and constantly monitor estimating, procurement, project execution, and contract terms. These are all risks that are under management control, and are an area where management is assessing the strength of its internal and disclosure controls on an ongoing basis.

In past periods of high construction activity in western Canada there have been shortages of labour, including our own and our subcontractors' work forces. In certain of our companies, the labour force is unionized, creating a possibility of labour disruptions if collective agreements cannot be negotiated as they come due.

In the past, Churchill has grown by acquisition, including Laird Electric in 2003. Our ability to undertake future acquisitions is limited by our ability to access financing. In addition, the success of any acquisition is dependent upon the successful integration of the acquired company into the rest of our operations.

Churchill's management is constantly assessing the company's exposure to some form of catastrophic risk, and where possible and economically feasible, will buy insurance protection to mitigate that risk.

2004 OUTLOOK

The Churchill Corporation entered 2004 with a backlog of $313.7 million, of which $265.6 million is expected to become earned revenue in 2004 and $48.1 million is expected to carry forward into 2005 or later.

Of the $265.6 million of backlog expected to be taken into revenue in 2004, $175.8 million is from projects already underway, reducing the risk of project cancellation or delay. An additional $26.5 million is generated from maintenance contracts, which clients generally do not defer. The remaining $63.3 million of the backlog relates to projects that had not commenced at December 31, 2003. In general, these projects have a higher degree of risk of being delayed or cancelled, although in this instance, a number are government related projects that have received all approvals, including funding, and should commence on schedule.

Stuart Olson enters 2004 with $263.5 million of backlog, of which $216.3 million is expected to be realized as revenue in 2004. This represents 112% of their 2003 revenue level, and 97% of their record earned revenue level of 2002. The Alberta building construction market appears to be positive, and the British Columbia market appears to be strengthening. Coupled with the anticipated infrastructure development funding for schools, hospitals and long-term health care in Alberta this should result in Stuart Olson surpassing 2003 revenues. Stuart Olson typically experiences a slow first quarter of the year due to the impact of weather on productivity; we do not expect 2004 to vary from that pattern.

Triton Projects enters 2004 with $12.1 million of backlog. This is at a low level, however, they have secured contracts for the new fabrication facility commencing mid-year, and they expect to participate in the related field construction work later in the year. Our belief is that the Triton organization has been right-sized, so that a reasonable level of success in obtaining contracts in the first six months of the year should result in Triton being profitable. It is expected that the first six months of the year will be difficult, as many of the potential projects will still be in the engineering phase and not yet moved into the construction phase.

The Industrial Insulation Contracting group had a strong year in 2003, with revenues of $63.9 million. They entered 2004 with $14.3 million of backlog for execution in 2004, of which $4.0 million is expected as work under maintenance contracts. 2004 is expected to be somewhat slower than 2003 for this group due to the early stage of development on many of the anticipated projects.

Laird Electric entered 2004 with a $23.8 million backlog, of which $16.0 million is recurring maintenance to be completed in 2004. In January 2004 Laird was awarded a large contract in the Fort McMurray area for an existing client, scheduled for completion in 2004. Laird should repeat or exceed their performance of 2003.

Churchill incurred approximately $0.4 million in 2003 in public company costs including directors' fees and insurance. Looking forward to 2004, that figure is expected to increase substantially due to regulatory changes, both in the level and timing of reporting to the stock exchanges and securities commissions, and in dealing with other legislation such as the new Privacy Acts and the new health and safety regulations. Churchill expects to incur significant one-time and on-going costs related to these activities.

An important initiative during the second half of 2003 was the establishment of Churchill Industrial Group Inc., a new group that is internally focused on the efficient and cost effective delivery of services that are common to all of the industrial companies. These include safety, marketing and human resources. It is also expected that this initiative will allow Churchill to better communicate and market its package of services to existing and potential clients.

A major new initiative for the Industrial group is the planned construction of a modular fabrication shop and yard. This initiative, approved by the Board of Directors in late 2003, is planned for construction completion by mid-2004 at an estimated cost of $7.4 million. This facility will allow Churchill to offer its clients a more controlled environment to achieve lower project costs, and access to a larger labour pool compared to that available at a remote work site. The Corporation has received a written indication of intent from a customer that would utilize a substantial portion of the 2004 capacity of the facility upon completion. Depending on the client and the opportunity, more than one of Churchill's industrial companies could be involved in the work in the modular fabrication shop and yard, and in the field installation activity.

The primary driver for Churchill is profitability. The Corporation has a significant backlog of construction projects entering 2004. Management is focused on their markets, their profitability, and is aware of the risks that have kept the company from being financially successful over the past year. The construction marketplace in western Canada is expected to improve in 2004 and strengthen for a number of years.

MANAGEMENT'S AND AUDITORS' REPORT

The accompanying financial statements and all information in this Annual Report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgment. Financial information contained throughout this Annual Report is consistent with the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

Deloitte & Touche LLP, an independent firm of Chartered Accountants, was appointed by a vote of shareholders at the Corporation's last annual meeting to examine and report on the consolidated financial statements of the Corporation in accordance with generally accepted auditing standards.

The Board of Directors has approved the information contained in the consolidated financial statements. The Board fulfills its responsibility in this regard mainly through its Audit Committee which has thoroughly reviewed the financial statements, including the notes thereto, with management and the external auditors.

Gary R. Bardell, M.Sc., MBA, P.Eng.
President and CEO

Ian T. Morris, CA, CBV
Vice President Finance and CFO

To the Shareholders of The Churchill Corporation,

We have audited the consolidated balance sheets of The Churchill Corporation as at December 31, 2003 and 2002 and the consolidated statements of loss, retained earnings and net cash flow for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and 2002 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Edmonton, Alberta
February 27, 2004

Consolidated Balance Sheets

As at December 31 ($ thousands)	2003	2002
ASSETS		
Current Assets		
Cash (Note 5)	$ 14,622	$ 14,093
Accounts Receivable	67,513	70,578
Inventories and Prepaid Expenses	1,410	825
Properties for Sale (Note 6)	103	103
Income Taxes Recoverable	–	2,583
Current Portion of Agreement Receivable (Note 7)	138	95
	83,786	88,277
Agreement Receivable (Note 7)	–	167
Equity Investment	–	1,416
Future Income Tax Assets (Note 12)	376	340
Property and Equipment (Note 8)	9,568	8,770
Intangible Assets (Note 9)	784	–
Goodwill (Note 3)	8,315	–
	$ 102,829	$ 98,970
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 50,949	$ 49,130
Contract Advances and Unearned Income	11,454	12,139
Income Taxes Payable	1,105	–
Future Income Tax Liabilities (Note 12)	858	5,488
Current Portion of Long-Term Debt (Note 11)	1,864	345
	66,230	67,102
Long-Term Debt (Note 11)	5,635	17
Future Income Tax Liabilities (Note 12)	483	170
	72,348	67,289
Contingencies and Commitments (Notes 17 and 18)		
SHAREHOLDERS' EQUITY		
Share Capital (Note 13)	3,794	1,300
Contributed Surplus (Note 13)	5,128	5,128
Retained Earnings	21,559	25,253
	30,481	31,681
	$ 102,829	$ 98,970

Approved by the Board:

Gary Bardell
Director

Peter Adams
Director

Consolidated Statements of Loss

Years ended December 31 ($ thousands, except per share amounts)	2003	2002
CONSTRUCTION OPERATIONS		
Contract Revenue	$ 319,192	$ 311,663
Contract Costs	299,177	291,024
Contract Income	20,015	20,639
Interest Income	464	769
Sundry Income	176	57
Indirect and Administrative Expenses	(21,854)	(19,312)
Bad Debt Recovery	206	131
Depreciation and Amortization	(3,226)	(1,992)
Interest Expense	(557)	(173)
(Loss) Earnings from Construction Operations	(4,776)	119
NON-CONSTRUCTION OPERATIONS		
Earnings before Interest (Note 15)	182	502
Interest Expense	-	(75)
Earnings from Non-Construction Operations	182	427
(LOSS) EARNINGS BEFORE INCOME TAXES	(4,594)	546
Income Tax (Expense) Recovery:		
Current Income Tax	(4,031)	1,852
Future Income Tax	4,968	(1,416)
	937	436
NET (LOSS) EARNINGS	$ (3,657)	$ 982
Net (Loss) Earnings Per Common Share (Note 14)		
Basic	$ (0.31)	$ 0.09
Fully Diluted	$ (0.31)	$ 0.09

Consolidated Statements of Retained Earnings

Years ended December 31 ($ thousands)	2003	2002
Retained Earnings, beginning of year	$ 25,253	$ 24,631
Net (Loss) Earnings	(3,657)	982
Share redemption in excess of stated capital	(37)	(360)
Retained Earnings, end of year	$ 21,559	$ 25,253

Consolidated Statements of Net Cash Flow

Years ended December 31

($ thousands)	2003	2002
OPERATING ACTIVITIES		
Net (Loss) Earnings	$ (3,657)	$ 982
Non-cash items		
Net equity earnings of affiliate	(172)	(262)
Depreciation and amortization	3,226	1,992
Gain on disposal of properties for sale	–	(110)
Future income taxes	(4,968)	1,416
	(5,571)	4,018
Net change in accounts receivable, inventories and prepaid expenses	9,397	(2,590)
Net change in accounts payable, contract advances and unearned income	(492)	(3,147)
Change in income taxes payable	3,589	2,413
	6,923	694
INVESTING ACTIVITIES		
Proceeds from agreement receivable	124	64
Distributions from equity investee	1,588	193
Proceeds on disposal of property and equipment	124	667
Acquisition of subsidiary (Note 3)	(12,874)	(570)
Additions to property and equipment	(2,411)	(4,154)
	(13,449)	(3,800)
FINANCING ACTIVITIES		
Issuance of long-term debt	8,678	–
Repayment of long-term debt	(1,857)	(497)
Issuance of Common Shares	277	489
Redemption of Common Shares	(43)	(374)
	7,055	(382)
Increase (decrease) in cash	529	(3,488)
Net cash, beginning of year	14,093	17,581
Net cash, end of year	$ 14,622	$ 14,093
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid (received) during the year for:		
Interest expense	$ 565	$ 163
Income taxes	$ 343	$ (4,265)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

The Churchill Corporation provides building construction, heavy-industrial general contracting, industrial insulation contracting, industrial electrical and instrumentation contracting and related services within Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and reflect the following policies:

Consolidation

The consolidated financial statements include the accounts of the following subsidiaries, their subsidiaries and limited partnership:

Stuart Olson Construction Ltd. (100%)	Triton Projects Limited Partnership (100%)
Insulation Holdings Inc. (100%)	Laird Electric Inc. (100%)
Triton Construction Inc. (100%)	Churchill Industrial Group Ltd. (100%)

Inventories

Inventories are recorded at the lower of cost and net realizable value.

Properties for Sale

Properties for sale are recorded at the lower of cost and net realizable value. Property sales are recorded when the Corporation has fulfilled all material conditions and received an appropriate down payment.

Equity Investment

Equity investment represents an interest in an operating company, LCT Holdings, where the Corporation has significant influence (Note 15). This interest is accounted for on the equity basis with an impairment allowance for any decline in value not considered temporary.

Property and Equipment

Property and equipment are recorded at cost and depreciated using either the diminishing-balance or the straight-line methods at the rates indicated in Note 8.

Contract Income

Contract revenue for cost-plus contracts is recorded as the service is performed and the related expenses are incurred. Contract revenue from fixed-price contracts is recognized on the percentage of completion basis. Percentage of completion is determined by relating either the actual cost of work or the actual hours performed to date to the current estimated total cost or estimated total hours for each contract. Any projected loss is recognized immediately.

Income Taxes

The Corporation uses the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets including unused tax losses are recognized, subject to a valuation allowance, to the extent it is more likely than not such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Earnings Per Share

Fully diluted earnings per share is computed using the treasury stock method, whereby it is assumed that any proceeds obtained upon the exercise of outstanding options would be used to buy back Common Shares at the average market price during the period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation Plan

Effective January 1, 2002, the Corporation adopted prospectively, CICA Handbook Section 3870 with respect to the accounting for and disclosure of stock-based compensation. The Corporation has elected to use the intrinsic value-based method and therefore no compensation expense has been recognized in the financial statements for stock options granted in the year.

Under the current accounting standard, companies that elect a method other than the fair value method of accounting are required to disclose pro forma net income and earnings per share information, using a pricing model such as the Black-Scholes model, as if the fair value method of accounting has been used (See Note 16). These new rules do not apply to pre-existing awards, except for those awards that call for settlement in cash or other assets.

In September 2003, the CICA revised Section 3870 of the CICA Handbook to require that effective January 1, 2004 the fair value method of accounting for stock options be recognized in the financial statements. The Corporation intends to apply these provisions retroactively without restatement of the prior year commencing January 1, 2004. The cumulative compensation cost of options to acquire Common Shares of the Corporation issued since January 1, 2002, using the Black-Scholes option pricing model, will be charged to retained earnings with a corresponding increase to contributed surplus at January 1, 2004.

Use of Estimates

Financial statements prepared in accordance with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from these estimates.

Statements of Cash Flow

The statements of cash flow have been prepared using the indirect method.

Cash

For the purposes of presentation, on the Consolidated Statements of Cash Flow, cash is comprised of bank balances.

Intangible Assets and Goodwill

In conjunction with CICA Handbook Section 3062, Goodwill and Other Intangible Assets, the Corporation records intangible assets with indefinite lives and goodwill at cost, and rather than being systematically amortized, the carrying value of these assets are periodically tested for impairment. Intangible assets with finite lives ("intangible assets subject to amortization") are reviewed annually in respect to their useful lives. The test is applied to each of the Corporation's reporting units (the reporting units being identified in accordance with the criteria in the CICA Handbook section for intangible assets and goodwill).

Under the requirements of CICA Handbook Section 3062 the Corporation is required to test its goodwill for impairment on an annual basis. Consistent with current industry-specific valuation methods and recommendations for assessment, the Corporation uses a combination of the discounted cash flow model and the market comparable approach for determining the fair value of its reporting units. The Corporation has selected December as its annual test time.

Guarantees

During the year, the Corporation adopted the new CICA Accounting Guideline 14, "Disclosure of Guarantee", which recommends companies disclose the nature, amount and terms of obligations under guarantee, and has provided additional disclosure in Note 19.

3. ACQUISITION OF SUBSIDIARIES

($ thousands)

Laird Electric Inc.

On February 7, 2003, the Corporation acquired all of the issued and outstanding shares of Laird Electric Inc. (Laird) for $8,520 cash plus the issuance from treasury of 826,412 Common Shares of the Corporation. The financial statements to December 31, 2003 include the operations of Laird from February 8, 2003 onward.

The values assigned to the acquired net assets are:

Cash	$	1,005
Other Working Capital Items		5,192
Property and Equipment		971
Intangible Assets		1,550
Goodwill		8,315
Long-Term Debt		(316)
Shareholders' Loans		(5,359)
Future Income Tax Liabilities		(615)
	$	10,743

The purchase price consisted of:

Common Shares	$	2,223
Cash		8,520
	$	10,743

The acquisition cost is shown in the Statements of Net Cash Flow as the cash paid for the shares of $8,520 less the cash acquired of $1,005, plus cash paid for the Laird shareholders' loans of $5,359, for a net cash outlay of $12,874.

Intangible assets were acquired totaling $1,550 (Note 9). The intangibles relate to a customer contract ($550), valued on a discounted net present value basis, and employment contracts valued at their recoverable value in the event of the departure of the employees ($1,000).

Up to $1.0 million of the purchase price is recoverable in the event that either of the key individuals leave Laird's employ prior to December 31, 2005, or if Laird does not achieve a cumulative financial performance objective by December 31, 2005. Potential repayments under these agreements are secured by 413,205 shares of the Corporation held by an escrow agent without further recourse. The final purchase price, and values assigned to certain assets, may vary from those shown above once the final adjustment period has expired.

Lakehead Insulation Inc.

On January 17, 2002, Fuller Austin Insulation Inc., a subsidiary of the Corporation, acquired all the issued and outstanding shares of Lakehead Insulation Inc., an insulation contractor based in Thunder Bay, Ontario, for $692 plus future consideration based on Lakehead earnings during the three year period ending December 31, 2004.

The values assigned to the acquired net assets are:

Cash	$	122
Other Working Capital Items		237
Property and Equipment		455
Future Income Tax Liabilities		(122)
	$	692

The acquisition cost is shown in the Statements of Net Cash Flow as the cash paid for the shares of $692 less the cash acquired of $122, for a net of $570.

4. JOINT VENTURES

($ thousands)

The Corporation and its subsidiaries are partners in incorporated and unincorporated joint ventures. These financial statements include the proportionate share of assets, liabilities, revenue, expenses, net income and cash flow of these joint ventures as follows:

	2003	2002
Current and total assets	$ 973	$ 7,743
Current and total liabilities	1,330	7,648
Contract revenue	3,247	33,831
Contract costs and expenses	4,530	33,330
Net (loss) income	(1,282)	501
Cash flow (used in) provided by operating activities	(2,508)	1,224

5. CASH

($ thousands)

Cash includes $4,370 (2002 - $5,512) which is restricted under the British Columbia Lien Act to the payment of direct costs related to specific construction projects. Cash balances of $146 (2002 - $1,823) are in joint venture accounts.

6. PROPERTIES FOR SALE

($ thousands)

	2003	2002
Undeveloped land	$ 647	$ 647
Less cumulative valuation adjustments	(544)	(544)
	$ 103	$ 103

7. AGREEMENTS RECEIVABLE

($ thousands)

	2003	2002
Mortgage receivable, interest at 7%	$ 138	$ 185
Mortgage receivable, interest at 6%	-	77
Less current portion	(138)	(95)
	$ -	$ 167

8. PROPERTY AND EQUIPMENT

($ thousands)

	2003			2002	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Land	$ 1,562	$ –	$ 1,562	$ 1,103	–
Assets under construction	27	–	27	–	–
Buildings and improvements	5,338	2,556	2,782	2,936	4% – 30%
Vehicles and equipment	17,708	12,511	5,197	4,731	6% – 100%
	$ 24,635	$ 15,067	$ 9,568	$ 8,770	

Depreciation for the year amounted to $2,460 (2002 - $ 1,992).

9. INTANGIBLE ASSETS

($ thousands)

	2003			2002	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Amortization Term
Customer Contract Intangible	$ 550	$ 462	$ 88	$ –	12 months
Employment Contracts Intangible	1,000	304	696	–	36 months
	$ 1,550	$ 766	$ 784	$ –	

The intangible assets arose on the acquisition of Laird Electric Inc. (Note 3) and are being amortized over the term of the related contracts on a straight-line basis.

The amortization expense for the year totaled $766 (2002 - $nil).

10. LINES OF CREDIT

($ thousands)

The Corporation maintains an operating line of credit of $10,500 (2002 - $7,000) which, if utilized, would bear interest at prime + 0.5%. In addition, the Corporation has an equipment line of $2,000 (2002 - $2,000) which, if fully utilized, would bear interest at prime + 1.0%. The total amounts ultimately available under these facilities are subject to limits based on certain financial ratios.

No amounts have been drawn under either of these facilities as at December 31, 2003.

These lines of credit are secured by General Security Agreements and a pledge of specific assets.

11. LONG-TERM DEBT

($ thousands)

	2003	2002
Equipment loan	$ –	$ 306
Acquisition loan	6,800	–
Finance contracts	683	–
Capital leases	16	56
	7,499	362
Less current portion	(1,864)	(345)
	$ 5,635	$ 17

The equipment loan bore interest at prime + 1%, was secured by a pledge of specific assets and was due November, 2003. In conjunction with the acquisition of Laird Electric Inc., the Corporation received $8,000 of floating-rate term debt, bearing interest at prime plus 1¼%, payable in quarterly installments of $400 plus interest, and due February, 2008, secured by General Security Agreements. Finance contracts bear effective interest rates ranging from 3.9% to 8.4%, are payable in various monthly installments mature, at various dates up to 2008, and are secured by vehicles with a net book value of $742. Capital leases, which mature in 2005, and bear interest at 8.4%, are secured by equipment with a net book value of $18.

Interest expense on long-term debt during the year was $411 (2002 - $65).

The acquisition loan, and the lines of credit as described in Note 10, are subject to certain debt covenants calculated on a quarterly basis including, but not limited to, tests of tangible net worth, leverage and interest coverage. The Corporation was in compliance with these ratios in 2003. Should the Corporation be in violation of its financial ratios, the bank will be in a position to demand repayment of any balances outstanding under these facilities. The Corporation monitors the financial ratios on a continuous basis. The Corporation is in the early stages of arranging financing for the modular fabrication facility described in Note 18(b). In conjunction with this, the Corporation will be in discussions with its current lender to modify its existing covenants.

11. LONG-TERM DEBT (CONTINUED)

Estimated principal payments in the next five years are:

2004	$	1,864
2005		1,775
2006		1,757
2007		1,678
2008		425

12. INCOME TAXES

($ thousands)

The Corporation's tax (recovery) expense differs from the provision computed at statutory rates as follows:

	2003	2002
Net (loss) earnings before income taxes	$ (4,594)	$ 546
Equity earnings	(172)	(262)
Non-deductible expenses	475	353
Taxable Income	$ (4,291)	$ 637
Income tax at statutory rate of 36.75% (2002 - 39.25%) of Taxable Income	$ (1,577)	$ 250
Large corporation and other taxes	224	15
Savings from reduction in tax rates for future income tax and tax recovery	(65)	(719)
Unrecorded asset in joint venture	267	–
Other	214	18
Income Tax Recovery	$ (937)	$ (436)

The components of the future income tax assets and liabilities are as follows:

	2003	2002
Tax loss carry forwards:	$ 1,703	$ –
Equipment and other assets	12	166
Unbilled work-in-progress and holdback receivable	(2,692)	(3,403)
Accounting income not currently taxable	–	(2,084)
Other	12	3
	$ (965)	$ (5,318)
Classified as:		
Long-term asset	$ 376	$ 340
Current liability	(858)	(5,488)
Long-term liability	(483)	(170)
	$ (965)	$ (5,318)

The consolidated group has accumulated net capital losses for income tax purposes of $7,172 which may be carried forward indefinitely to reduce future capital gains. The value of these losses has not been recognized in these financial statements.

The consolidated group has accumulated non-capital losses for income tax purposes of $4,915 which expire in 2010.

13. SHAREHOLDERS' EQUITY

($ thousands, except share and per share amounts)

Share Capital

Authorized

Unlimited Preferred Shares issuable in series with rights set by the Directors

Unlimited Common Shares

Issued	2003		2002	
	Shares	Share Capital	Shares	Share Capital
Common Shares:				
Issued, beginning of year	10,864,040	$ 1,300	10,566,974	$ 825
Shares repurchased and cancelled	(18,800)	(6)	(149,600)	(14)
Stock options exercised	192,000	277	–	–
Issued pursuant to acquisition (Note 3)	826,412	2,223	446,666	489
Issued, end of year	11,863,652	$ 3,794	10,864,040	$ 1,300

Contributed Surplus

Contributed surplus of $5,128 arose in 1997 from the acquisition of Preferred Shares, with an issue price of $9,829, for $4,142 plus associated acquisition costs of $559.

Share-Based Compensation Plan

The Corporation maintains an Employees and Directors Share Option Plan under which options may be granted by the Board of Directors for up to 2,135,666 Common Shares of the Corporation. As at December 31, 2003, the maximum number of options available for issue under this plan is 1,408,000 of which 1,046,334 are issued and outstanding, leaving 361,666 available for grant. The exercise price of each option cannot be lower than the public market price on the date of grant. The Board of Directors sets the exercise period for each option granted, which may not exceed ten years, and the vesting term, which may not exceed five years.

A summary of the Corporation's outstanding share options under the Plan at December 31, 2003 and 2002, indicating changes during the years ended on those dates, is presented below:

	2003		2002	
	Number of Share Options	Weighted Average Exercise Price	Number of Share Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,077,667	$ 1.73	1,431,000	$ 1.38
Granted	205,000	2.95	125,000	3.84
Cancelled	(44,333)	1.63	(31,667)	3.10
Exercised	(192,000)	1.44	(446,666)	1.10
Outstanding, end of year	1,046,334	$ 2.03	1,077,667	$ 1.73

The following table summarizes information about share options outstanding under the Plan at December 31, 2003:

Exercise Price	Expiry Date	Options Outstanding Dec. 31, 2003	Options Exercisable Dec. 31, 2003
$ 1.29	May 20, 2004	367,000	367,000
1.30	Feb. 7, 2005	33,334	33,334
1.64	Nov. 13, 2005	316,000	316,000
3.84	Aug. 9, 2007	125,000	58,333
2.95	Oct. 7, 2007	205,000	68,333
		1,046,334	843,000

13. SHAREHOLDERS' EQUITY (CONTINUED)

($ thousands, except share and per share amounts)

Normal Course Issuer Bids

During the year the Corporation purchased 18,800 (2002 – 149,600) Common Shares for cancellation under Normal Course Issuer Bids at an average cost of $2.29 (2002 - $2.51) per Share, including commissions. The amount by which the cost exceeds the stated value of the Common Shares is charged to retained earnings.

On February 22, 2004, the Corporation initiated a new Normal Course Issuer Bid through the Toronto Stock Exchange under which up to 900,000 of its outstanding Common Shares may be purchased for cancellation. This new bid will terminate on February 23, 2005.

Shareholder Rights Plan

The Corporation has an Amended and Restated Shareholder Rights Plan (the "Plan") which attaches one Right, with an Exercise Price of $20.00, to each outstanding Common Share of the Corporation. The Rights expire on September 30, 2004 unless exchanged or redeemed on an earlier date. Such Rights can only be exercised on the occurrence of a triggering event, which is defined as a person (an "Acquiring Person") acquiring, or publicly announcing its intention to acquire, 20% or more of the Common Shares, other than by an acquisition pursuant to a takeover bid permitted by the Plan. Upon occurrence of a triggering event, as described above, each Right entitles the holder, other than an Acquiring Person, to purchase that number of Common Shares of the Corporation having an aggregate market price equal to twice the Exercise Price, for a cash amount equal to the Exercise Price.

14. NET (LOSS) EARNINGS PER COMMON SHARE

($ thousands, except share and per share amounts)

Basic earnings per share is computed on the basis of the weighted average number of Common Shares outstanding. Fully diluted earnings per share is computed on the basis of the weighted average number of Common Shares outstanding plus the effect of outstanding stock options using the treasury stock method.

The components of basic and fully diluted earnings per share are as follows:

	2003	2002
Net (Loss) Earnings	$ (3,657)	$ 982
Weighted average number of Common Shares outstanding	11,665,985	10,773,696
Incremental number of shares under treasury stock method	368,044	667,948
	12,034,029	11,441,644
Net (Loss) Earnings Per Common Share:		
Basic	$ (0.31)	$ 0.09
Fully Diluted	$ (0.31)	$ 0.09

For the year ended December 31, 2003 the effect of outstanding share options on earnings per share is anti-dilutive as the Corporation is in a loss position.

15. NON-CONSTRUCTION EARNINGS

($ thousands)

	2003	2002
Equity Investment (LCT Holdings Ltd.)		
Equity earnings	$ 172	$ 262
Management fees	–	120
Properties for Sale		
Property rentals - net	–	(3)
Gain on disposal	–	110
Interest income	10	13
Earnings Before Interest	$ 182	$ 502

During 2003 Lafrentz Road Services Ltd. sold its operating assets, distributed the net cash received to its owners, and changed its name to LCT Holdings Ltd. As at December 31, 2003 LCT Holdings Ltd. is an inactive company.

16. STOCK-BASED COMPENSATION

($ thousands, except per share amounts)

Effective January 1, 2002, the CICA recommended that stock-based compensation be accounted for using a fair value methodology. As permitted, the Corporation has elected to measure compensation expense as the difference, if any, between the quoted market value or fair value of the stock at the date of grant and the exercise price at the date of grant. The exercise price of options granted by the Corporation was not less than the market value at the date of grant and consequently, no compensation expense has been recorded.

If compensation costs for options for Common Shares of the Corporation, issued on or after January 1, 2002, has been determined based on the fair value methodology, using the Black-Scholes option-pricing model, the Corporation's net loss and loss per share would have been increased to the pro forma amounts indicated below:

			2003		2002
Net (Loss) Earnings	As reported	$	(3,657)	$	982
	Pro forma	$	(3,773)	$	922
Basic (Loss) Earnings per Common Share	As reported	$	(0.31)	$	0.09
	Pro forma	$	(0.32)	$	0.09
Fully diluted (Loss) Earnings per Common Share	As reported	$	(0.31)	$	0.09
	Pro forma	$	(0.32)	$	0.08

The fair value of each option granted by the Corporation was estimated using the Black-Scholes option-pricing model assuming no dividends are paid on Common Shares, a risk-free interest rate of 3.36% (2002 – 4.22%), an average life of 3.4 years (2002 - 3.7 years), and a volatility of 49.69% (2002 – 46.91%). The amounts computed, according to the Black-Scholes pricing model, may not be indicative of the actual values realized upon the exercise of these options by the holder.

17. CONTINGENCIES

($ thousands)

a) Subsidiaries of the Corporation are contingently liable for normal contractor obligations relating to performance and completion of construction contracts as well as obligations of associates in certain joint ventures.

b) The Corporation and its subsidiaries are defendants in lawsuits arising in the normal course of operations and involving various amounts. Management is of the opinion the results of these actions should not have any material effect on the financial position of the Corporation. Any awards or settlements will be reflected in the Statement of Earnings as the matters are resolved.

c) On January 17, 2002, Fuller Austin Insulation Inc. acquired the shares of Lakehead Insulation Inc. The purchase agreement includes potential future consideration of up to $300 based on Lakehead earnings during the three-year period ending December 31, 2004. No contingent consideration was booked at the date of acquisition as the value could not be reasonably determined. No contingent consideration has been earned under this arrangement.

18. COMMITMENTS

($ thousands)

a) The Corporation and its subsidiaries lease certain equipment, vehicles, office premises, and are also committed to future annual payments in respect of a service agreement. Future minimum payments over the next five years are:

2004	$	700
2005		549
2006		322
2007		244
2008		160

b) The Corporation purchased land to construct a modular fabrication shop and yard, and committed in 2003 to spend up to $5.2 million on the initial phases of construction. On the strength of a client's indicated commitment, the Corporation has approved completing additional phases of the facility, increasing the total estimated facility cost to $7.4 million.

19. GUARANTEES

($ thousands)

The Corporation has issued an irrevocable letter of credit for $40 as general security under an industrial maintenance contract. The maximum potential payment amount varies with the scope of the maintenance being performed at any given point in time, and may be greater or less than the letter of credit. The letter of credit expires August 2004.

The Corporation is a partner in two joint ventures. In each instance the Corporation has provided a joint and several guarantee, increasing the maximum potential payment to the full value of the work remaining under the contract. The cost of completing the contracts cannot reasonably be determined, and may be greater or less than the unbilled portion of the contracts.

The Corporation has entered into a joint and several guarantee under the representations and warranties given as a part of the transactions whereby the Corporation's equity investment sold the majority of its assets to a third party. The Corporation also agreed to have $189 of its proceeds placed into an escrow account until February, 2008 to provide against product warranty claims and claims under the representations and warranties. There is no maximum potential payment under the guarantee. The Corporation has not recorded the escrow amounts as an asset as at December 31, 2003.

20. RELATED PARTY TRANSACTIONS

($ thousands)

In October, 2002 the Corporation provided an interest-bearing, demand loan to the President and Chief Executive Officer, to assist with housing arrangements in Edmonton. The President and Chief Executive Officer maintains offices in both Calgary and Edmonton. At December 31, 2003 the loan balance was $30 (2002 - $40). In addition, market rent payments of $24 (2002 - $6) were made by the Corporation in relation to this housing.

The Corporation incurred legal fees of $333 (2002 - $431) for services related to various legal matters with a law firm for which a Director of the Corporation is also a partner of the firm.

21. SEGMENTED INFORMATION

($ thousands)

The Corporation operates as a construction and maintenance services provider, primarily in western Canada. The Corporation is managed using five business segments: Buildings, Industrial General Contracting, Industrial Insulation Contracting, Industrial Electrical Contracting, and Corporate and Other.

Buildings is active in the construction of commercial, institutional, light-industrial and multi-unit residential buildings.

Industrial General Contracting includes heavy-industrial general contracting, fabrication, site work and ongoing maintenance.

Industrial Insulation Contracting includes all insulation, siding, fireproofing, asbestos abatement and plant maintenance services including, in certain instances, services provided to our industrial general contracting and industrial electrical contracting companies.

Industrial Electrical Contracting includes industrial electrical, instrumentation and power-line construction and maintenance services including, in certain instances, services provided to our industrial general contracting companies.

Corporate and Other includes the Corporation's non-core investments as well as all corporate costs not allocated directly to another business segment.

21. SEGMENTED INFORMATION (CONTINUED)

($ thousands)

The accounting policies of the reportable segments are the same as those described in Note 2. The segmented information provided is after the elimination of inter-segment management fees and loan balances and any related interest charges.

Year Ended December 31, 2003	Contract Revenue	Earnings (Loss) from Construction Operations	Depreciation and Amortization	Goodwill	Total Assets	Capital Expenditures
Buildings	$ 192,610	$ (2,550)	$ 596	$ –	$ 55,597	$ 657
Industrial General Contracting	38,660	(2,898)	885	–	10,765	525
Industrial Insulation Contracting	63,939	2,530	475	–	15,600	333
Industrial Electrical Contracting	25,579	1,173	1,070	8,315	16,956	370
Corporate and Other	–	(3,031)	200	–	4,428	526
Inter-segment Adjustments	(1,596)	–	–	–	(517)	–
	$ 319,192	$ (4,776)	$ 3,226	$ 8,315	$ 102,829	$ 2,411

Year Ended December 31, 2002	Contract Revenue	Earnings (Loss) from Construction Operations	Depreciation and Amortization	Goodwill	Total Assets	Capital Expenditures
Buildings	$ 223,722	$ 1,840	$ 651	$ –	$ 63,013	$ 644
Industrial General Contracting	44,477	(1,053)	800	–	18,300	2,581
Industrial Insulation Contracting	44,256	1,575	372	–	17,439	767
Industrial Electrical Contracting	–	–	–	–	–	–
Corporate and Other	–	(2,255)	169	–	218	162
Inter-segment Adjustments	(792)	12	–	–	–	–
	$ 311,663	$ 119	$ 1,992	$ –	$ 98,970	$ 4,154

22. EMPLOYEE CONTRIBUTION PLANS

($ thousands)

The Corporation and its subsidiaries have a Registered Retirement Savings Plan and an Employee Share Purchase Plan whereby they match voluntary contributions made by employees to a maximum of 5% of base salary for each plan. Contributions made by the Corporation during the year to the plans were $1,429 (2002 - $1,338).

23. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as accounts payable, short-term borrowings, and any other amounts that will result in future cash outlays.

Risk management

The financial risk is the risk to the Corporation's earnings that arises from fluctuations in the interest rates and foreign exchange rates and the degree of volatility of these rates. The Corporation is exposed to interest rate risk on its floating rate operating line, when utilized, and its floating rate term debt as disclosed in Notes 10 and 11. The Corporation does not use derivative instruments to reduce its exposure to this risk. The Corporation is not currently exposed to any direct foreign currency risk.

Credit risk

The Corporation is exposed to credit risk through accounts receivable. This risk is minimized by the number of customers in diverse industries and geographic centres. The Corporation performs an assessment of its potential customers as part of its work procurement process, including an evaluation of financial capacity. The Corporation maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

Fair value of financial instruments

As at December 31, 2003, the carrying value of financial instruments of the Corporation approximates their fair values.

24. COMPARATIVE FIGURES

Certain of the comparative figures have been adjusted to be consistent with the current year's presentation.

FIVE YEAR SUMMARY

The following selected unaudited financial data has been derived from Churchill consolidated financial statements, which have been audited by Deloitte & Touche LLP, Chartered Accountants. The information set forth below should be read in conjunction with the Management's Discussion & Analysis and Consolidated Financial Statements and Notes sections of this Annual Report.

Years ended December 31 ($ thousands, except share and per share data and percentages)	2003	2002	2001	2000	1999
INCOME STATEMENT DATA					
Contract Revenue	$ 319,192	$ 311,663	$ 293,462	$ 314,078	$ 228,038
Contract Income	20,015	20,639	30,123	27,802	18,924
Percent of Contract Revenue	6.3%	6.6%	10.3%	8.9%	8.3%
(Loss) Earnings from Construction Operations	(4,776)	119	8,696	11,860	6,450
Interest Expense	557	248	253	150	307
Depreciation and Amortization	3,226	1,992	1,708	1,502	681
(Loss) Earnings Before Income Taxes	(4,594)	546	9,005	12,045	6,407
Net (Loss) Earnings	(3,657)	982	5,318	6,690	3,403
BALANCE SHEET DATA					
Working Capital	$ 17,556	$ 21,175	$ 22,504	$ 18,542	$ 15,324
Shareholders' Equity	30,481	31,681	30,584	25,342	19,427
Term Debt and Bank Indebtedness	7,499	362	4,999	1,248	–
Non-Construction Related Assets	241	1,781	1,699	1,383	1,450
PER COMMON SHARE DATA					
Net (Loss) Earnings per Share:					
Basic	$ (0.31)	$ 0.09	$ 0.50	$ 0.63	$ 0.32
Fully Diluted	(0.31)	0.09	0.47	0.60	0.30
Book Value per Share	2.57	2.92	2.89	2.39	1.86
OTHER DATA					
Return on Average Shareholders' Equity (ROE)	(12%)	3%	19%	30%	19%
Work-in-Hand	$ 313,712	$ 317,266	$ 269,101	$ 233,246	$ 198,818
COMMON SHARE INFORMATION					
Weighted Average Shares Outstanding	11,665,985	10,773,696	10,567,745	10,704,566	10,514,853
Shares Outstanding at Year End:					
Basic	11,863,652	10,864,040	10,566,974	10,598,774	10,430,174
Fully Diluted	12,909,986	11,941,707	11,997,974	12,018,774	12,157,174
Shares Traded*	2,009,739	4,971,289	3,300,782	4,484,550	3,411,844
Share Price:					
High	$ 3.00	$ 4.91	$ 3.49	$ 2.00	$ 1.75
Low	1.90	1.79	1.86	1.25	0.80
Close	2.35	2.85	3.10	1.95	1.35

* Churchill Common Shares were listed on The Alberta Stock Exchange/Canadian Venture Exchange (CDNX) through January 25, 2000 and were listed for trading on the TSE December 8, 1999. The share trading volume and price information set forth consolidates CDNX and TSE market activity.

DIRECTOR PROFILES

Churchill's Board of Directors ensures appropriate policies and effective procedures are in place for monitoring the performance of senior management, strategic planning, risk management, succession planning and ensuring the integrity of our accounting and information systems. Churchill's approach to corporate governance is outlined in our 2004 Management Information Circular.

PETER F. ADAMS, PH.D., P.ENG.
CHAIRMAN
(EDMONTON) A B C

- President and Managing Director, Canadian Petroleum Institute
- Formerly: Dean of Engineering, University of Alberta; President, Technical University of Nova Scotia; and President, Centre for Frontier Engineering Research

BRIAN W.L. TOD, B.A., LL.B., Q.C.
DEPUTY CHAIRMAN
(EDMONTON) B

- Senior Partner, national law firm of Miller Thomson
- Serves as a Director of several public and private corporations

GARY R. BARDELL, M.SC., MBA, P.ENG.
(CALGARY AND EDMONTON)

- President and Chief Executive Officer, The Churchill Corporation

(See Executive Profiles page 47)

STANTON K. HOOPER, C.E.T.
(EDMONTON) B

- President, Stanton Developments Ltd.
- Regent, Gonzaga University

HARRY A. KING, B.A., CA
(VANCOUVER) A

- President and Director, Harking Investments Ltd.
- Director of Cogeco Cable Inc. and several private corporations

KIM MCINNES, B.A., M.U.D.
(TORONTO) C

- Executive Vice President and Chief Operating Officer Ivanhoe Cambridge Real Estate Group
- Formerly President, Retail and Office Management, Markborough Properties Inc.

H.R. (HANK) REID, MBA, P.ENG.
(GABRIOLA ISLAND) A

- President and Chief Executive Officer, The Churchill Corporation, from 1990 through 2002
- Formerly: President, Western Region and Vice President Corporate Development, George Wimpey Canada; President, Carlson Construction; and Corporate Controller, Bovis Corporation

WINSTON D. STOTHERT, M.A.SC., P.ENG.
(VANCOUVER) C

- Founder and Chairman, Stothert Group, an international engineering, design and construction management firm
- Governor, Business Council of British Columbia
- Chairman, Hillsborough Resources Limited

A Member, Audit Committee

B Member, Human Resources and Compensation Committee

C Member, Corporate Governance, Nominating and Risk Management Committee

EXECUTIVE PROFILES

(1) **GARY R. BARDELL,** M.SC., MBA, P.ENG.
President and Chief Executive Officer,
The Churchill Corporation

- Joined Stuart Olson in 1979; progressed through positions in operations, business development and general management to become President of Stuart Olson in 1997
- Became President and Chief Executive Officer of Churchill in October 2002
- Chairman, Alberta Construction Association; Director, Canadian Construction Association
- Received the Ted Walden Award in 2003 from the Calgary Construction Association for his lifetime achievements and contributions to the construction industry

(2) **IAN T. MORRIS,** CA, CBV
Vice President Finance and Chief Financial Officer and Corporate Secretary,
The Churchill Corporation

- Joined Churchill in 2002
- Responsibilities include treasury, corporate secretarial matters, mergers and acquisitions, strategic planning, management information systems and controls, risk management and accounting
- Prior financial management experience as Senior Vice President and Chief Financial Officer of a major international oilfield services company; and Senior Vice President and Chief Financial Officer of a leading publicly traded Canadian merchant bank

(3) **L. BRUCE RINTOUL,** MBA, P.ENG.
Vice President, Industrial,
The Churchill Corporation

- Joined Churchill in 2000
- Twenty-three years engineering, business development and general management experience in industrial construction and industrial services
- Chief Executive Officer of Triton Projects, Fuller Austin Insulation and Laird Electric
- Responsible for the growth and profitability of Industrial Division through internal initiatives, alliances and acquisitions

(4) **ALLEN W. STOWKOWY,** B.SC., P.ENG.
President, Stuart Olson Construction

- Joined Stuart Olson in 1985
- Progressed through positions in operations and general management to become Senior Vice President in 1997, and President and Chief Operating Officer in 2002
- Responsible for the growth and profitability of the Buildings Division through internal initiatives, alliances and acquisitions

GEOGRAPHIC SCOPE

Churchill Corporate Office

Edmonton

Stuart Olson (S)

Vancouver
Calgary
Edmonton
Lethbridge

Fuller Austin (I)
Northern Industrial (I)
Lakehead Insulation (I)

Calgary
Edmonton
Bonnyville
Fort McMurray
Regina
Thunder Bay

Triton Projects (T)

Calgary
Edmonton
Bonnyville
Fort McMurray

Laird Electric (L)

Edmonton
Fort McMurray

● **Major Project Locations**

Inuvik, NWT
Revelstoke, BC
Horse Lake, AB
Red Deer, AB
Ponoka, AB
Primrose, AB
Prince Albert, SK
Cory, SK
Estevan, SK
The Pas, MB
Thompson, MB
Dryden, ON
Nanticoke, ON

SHAREHOLDER INFORMATION

ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting of Shareholders will be held at:

2:00 pm on Monday, May 17, 2004
in the Devonian Room, Westin Hotel
10135 – 100 Street, Edmonton, Alberta

REGISTRAR AND TRANSFER AGENTS

Inquiries regarding change of address, registered shareholdings, share transfers, duplicate mailings and lost certificates should be directed to:

CIBC Mellon Trust Company
600 The Dome Tower
333 Seventh Avenue S.W.
Calgary, Alberta T2P 2Z1
Phone (403) 232-2400
Fax: (403) 264-2100
Email inquiries@cibcmellon.ca
www.cibcmellon.ca
Answerline 1-800-387-0825

INVESTOR RELATIONS

For copies of annual or interim reports and other investor-related information, or if you have any questions, please contact:

Cheryle Brandner
Investor Relations
The Churchill Corporation
Phone (780) 454-3667

EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: CUQ
CUSIP: 17143D103
Sedar Profile No: 00003704

Certain statements in this Annual Report may constitute "forward-looking statements". Although management of the Corporation believes that its expectations are based upon reasonable assumptions, it can give no assurance its expectations will be achieved. Such forward-looking statements involve risk, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Designed and produced by: Vision Design Communications Inc. (www.visiondc.com), Photography by: Bluefish Studios, Camera Craft Photography, Ed White Photographics, Metropolis Architectural Photography, Statler Studios Printed by: Capital Colour Press (1992) Ltd.

CORPORATE DIRECTORY

EXECUTIVE OFFICES

12836 – 146 Street
Edmonton, Alberta T5L 2H7
Phone (780) 454-3667
Fax (780) 452-8741
Email inquiries@churchill-cuq.com
www.churchillcorporation.com

INDUSTRIAL CONSTRUCTION AND MAINTENANCE

LAIRD ELECTRIC

Electrical, instrumentation and power-line construction and maintenance

225 MacDonald Crescent
Fort McMurray, Alberta T9H 4B5
Phone (780) 743-2595
Fax (780) 799-0687

TRITON PROJECTS

Heavy-industrial general contracting, fabrication and maintenance

8525 Davies Road
Edmonton, Alberta T6E 4N3
Phone (780) 485-6700
Fax (780) 485-6719

FULLER AUSTIN INSULATION

Insulation, siding, fireproofing and maintenance

16646 – 114 Avenue
Edmonton, Alberta T5M 3R8
Phone (780) 452-1701
Fax (780) 452-4129

NORTHERN INDUSTRIAL INSULATION CONTRACTORS

Insulation, siding, fireproofing and maintenance

17408 – 106A Avenue
Edmonton, Alberta T5S 1E6
Phone (780) 483-1850
Fax (780) 484-0004

BUILDING CONSTRUCTION

STUART OLSON CONSTRUCTION

Construction management, design-build and general contracting

Suite 360, 1121 Centre Street N.W.
Calgary, Alberta T2E 7K6
Phone (403) 520-6565
Fax (403) 230-5323

AUDITORS

Deloitte & Touche LLP
Chartered Accountants

LEGAL COUNSEL

Miller Thomson LLP
Borden Ladner Gervais LLP

PRINCIPAL BANK

The Bank of Nova Scotia

BONDING AND INSURANCE

AXA Pacific Insurance Company
Aon Reed Stenhouse Inc.

the Churchill Corporation

12836 - 146 Street
Edmonton, Alberta T5L 2H7
Phone (780) 454-3667
Fax (780) 452-8741
www.churchillcorporation.com